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Evaluation of the Norwegian Investment Fund for Developing Countries (Norfund)

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Responsibility for the contents and presentation of findings and recommendations rests with the evaluation team. The views and opinions expressed in the report do not necessarily correspond with those of the Ministry of Foreign Affairs.

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Abbreviations

AAIF	African Infrastructure Fund
CDC	Commonwealth Development Cooperation
DAC	Development Aid Committee
DFI	Development Finance Institutions
EDFI	European Development Finance Institutors
FDI	Foreign Direct Investments
FIRR	Financial internal rate of return
FMO	Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden n.v.
IFC	International Finance Cooperation
IFU	Industrialisation Fund for Developing Countries (Denmark)
IØ	Investment Fund for Central and Eastern Europe (Denmark)
LDC	Least Developed Country (49 low-income countries defined by the UN)
LIC	Low Income Country (see technical note)
LMIC	Lower middle income country (se technical note)
MFA	Ministry of Foreign Affairs, Norway
NHO	Næringslivets Hovedorganisasjon (Confederation of Norwegian Business and Industry)
NORAD	Norwegian Agency for Development Cooperation
NORFUND	Norwegian Investment Fund for Developing Countries
OECD	Organisation Economic Cooperation and Development
ODA	Official Development Assistance
PSD	Private sector development
SME	Small and medium size enterprises
SN Power	Statkraft Norfund Power Invest
TNC	Trans National Companies
ToR	Terms of Reference
UNCTAD	United Nations Conference for Trade and Development
UMIC	Upper middle income country (see technical note)

Technical note
Classifications of countries in *Income groups*:

Low income countries (LICs), $760 or less
Lower middle income countries (LMICs), $761 – $3,030;
Upper middle income countries (UMICs), $3,031 – $9,360; and
High income countries, $9,361 or more
The threshold for World Bank Loan Eligibility: US$ 5,280

All figures are from 1998 and were in use up to the end of 2002.
From 1 January 2003 these figures and rankings are slightly changed.

Fact Sheet

The Norwegian Investment Fund for Developing Countries (Norfund) was established by law 12 December 1996 and had its first full year of operation in 1998. Norfund operates as an integrated fund and fund management company.

Norfund's purpose is to help establish sustainable, viable ventures in developing countries that otherwise would not have been established due to perceptions of the risk involved. According to the Norfund Act (1996–97), Norfund shall provide loans and risk capital in the form of equity or quasi equity without subsidy to profitable and viable private enterprises in development countries and in this way promote business development in these markets.

Norfund is governed by the Norfund Act (1996–97) and directives issued by the Norwegian Ministry of Foreign Affairs. A board of 5 directors, one of whom represents the Ministry, and two deputy directors are appointed by the Norwegian Government.

The four main areas of operation are: direct investments; investments in funds; investments in fund management companies; and investment in a private Norwegian-based investment company for the energy sector (Statkraft Norfund Power Invest). Through the establishment of Aureos fund management company together with Commonwealth Development Cooperation (CDC) from Britain, a network of developing country-based fund management companies was linked to the Norfund structure.

As of 2002, Norfund has 22 employees, two of whom are seconded to Aureos and SN Power and two to the field (Angola and Central America).

From total assets of NOK 231 million in 1998, the fund grew to NOK 1.2 billion in 2002 through capitalisation from the Norwegian Government. The fund will further increase to NOK 1.7 billion in 2003, given the additional capitalisation agreed in the Government's 2003 budget. In addition to this comes the value of the loans taken over from NORAD, which may add to more than NOK 300 million to the fund in the years to come.

The fund is eligible for ODA registration when invested, based on an anticipated risk of loss equal to the required minimum grant elements of 25 per cent for such registration.

Executive Summary

The Norwegian Investment Fund for Developing Countries (Norfund) was established by law on 12 December 1996 and completed its first full year of operation in 1998. The establishment of Norfund added a new instrument to Norway's development policy. From total assets of NOK 231 million in 1998, the fund grew to NOK 1.2 billion in 2002 through capitalisation from the Norwegian Government. The fund is eligible for ODA registration when invested, based on an anticipated risk of loss equal to the required minimum grant elements of 25 per cent for such registration.

As of 2002, Norfund has 22 employees and operates as an integrated fund and fund management company. The four main areas of operation are: direct investments; investments in funds; investments in fund management companies; and investment in a private Norwegian based investment company for the energy sector (Statkraft Norfund Power Invest). The establishment of Aureos fund management company, together with the UK's Commonwealth Development Cooperation (CDC), provides access to a network of developing country-based fund management companies.

Norfund's purpose is to help establish sustainable, viable ventures that otherwise would not have been established due to perceptions of the risk involved. According to the Norfund Act (1996–97), Norfund shall provide loans and risk capital in the form of equity or quasi equity without subsidy to profitable and viable private enterprises in development countries and in this way promote business development in these markets. As of 1 January 2002 Norfund is no longer obliged to tie investments with Norwegian companies. From the same date Norfund came under an obligation to invest a third of the capital in Least Developed Countries (LDCs). This had always been one of Norfund's targets , however.

This evaluation was undertaken by Fafo Institute for Labour and Social Research (Fafo) and Nordic Consulting Group (NCG), between 1 September and 17 December 2002.

The evaluation takes place after only five years of operation and the majority of investments have only been undertaken over the last couple of years. The effects we were asked to measure will generally therefore not be fully apparent until a later stage. Accordingly, the evaluation has focused on the framework for investments set up through Norfund and the different rationales followed by Norfund when undertaking investment decisions.

It can be concluded that Norfund has been and remains a conducive mechanism for channelling development funds to promote private sector development. Though its direct and indirect investments in developing countries the fund has been instrumental in establishing and/or expanding private enterprises thereby creating an attractive environment for private investors. Within the guidelines set out by the Ministry of Foreign Affairs, Norfund has shown an ability to develop a viable organisation able to act on business opportunities like Aureos and Statkraft Norfund Power Invest (SN Power). The investments have in general been associated with the transfer of know-how and have adhered to high social and environmental standards. Norfund has focused more than other similar Development Finance Institutions (DFIs) on investing in the Least Developed Countries (LDCs). However, Norfund has found it difficult to invest a third of the capital in LDCs, as required. This evaluation attempts to provide some guidance as to how Norfund operations could be adjusted to enhance further its already positive development impact as well as how to adjust the guidelines in order to further increase the relevance of Norfund within the Norwegian Development Strategy.

Strategy and guidelines

An investment in a developing country may come in two forms, portfolio management and direct involvement.

Following a portfolio management strategy, one takes the performance of an individual company for given, and focuses on mitigating risk by investing in different companies. Generally, it is possible for a portfolio manager to diversify away from all so-called unsystematic risks (risks associated with the project as such) and most of the benefits of diversification can probably be achieved with fewer than 15 investments, distributed over different sectors and/or countries. What is left is the systematic risk, which is related to high levels of corruption, political instability, exchange rate unpredictability, etc. in several of the least developed countries.

Direct involvement implies operational control with the investment target and expected cash flow. In other words, where the portfolio manager scans for viable projects, the direct investor creates them.

Norfund operates through a combination of portfolio management and direct involvement in more than 30 countries in Africa, South East Europe, Latin America and Asia. The direct involvement varies; the engagements are geographically spread in markets were Norfund has variable market knowledge as well as across several different industries.

The investment strategy seems to be motivated by a need for risk mitigation through diversification. The rationale behind Norfund's choice of strategy is likely the guidelines, including MFA's long-term requirement that Norfund shall operate on own returns. This creates a need for Norfund to alleviate the systematic risk of investing in developing countries. The result is investments in countries, including upper middle-income countries, not reflecting Norwegian development strategies and representing a wider geographical spread. It has also probably hindered Norfund from reaching the investment target of a third of its capital in Least Developed Countries.

It is difficult to see why MFA imposed these conditions on Norfund. MFA guidelines should be amended, preferably calling for Norfund to maximise cash flow in its establishments in the low and lower-medium income countries (LIC and LMIC) while the systematic risk of operating in these countries should be taken by the MFA. This means that if investments in this group of developing countries continue to perform poorly in ten years' time, Norfund will most likely not be yielding an expected return in NOK to replenish its capital base and simultaneously cover its operational costs. On the other hand, if these countries or a group of them managed to improve their economic performance, Norfund should (if otherwise investing wisely) perform well. In other words, we would recommend differentiating between the systematic, political risk and the non-systematic project risk. It is therefore recommended that MFA redefine the geographical area of operations and long-term return requirements placed on Norfund. As a part of a stronger geographical concentration Norfund would be advised to invest solely in low and lower middle-income countries.

Operations

Norfund is a young organisation that has grown quickly. It has, in this respect, proved its ability to expand and enter into new businesses by gradually building up knowledge of the market opportunities. By building partnerships and investing in investment funds to share risk exposure Norfund has become more competent without exposing itself to dangerously high risks in terms of investments. The organisation is expected to have investment skills, country and market know-how and also knowledge of potential Norwegian investors. In addition, it should be able to make investments with a maximum development impact while maintaining an acceptable level of profitability in high-risk country environments. All these considerations have required a gradual approach to new markets and investments. The Aureos engagement represented an important step forward in acquiring country and market knowledge.

In order to meet the obligation of investing a third of the capital in LDCs, Norfund needs however to adjust its operations. The difficulties involved in achieving this under the present guidelines should be acknowledged. Further,

Norfund's investment structure implies that bodies other than Norfund itself generally undertake end-user investment decisions (i.e., SN Power board, the different Aureos Fund Investment Committees etc.). Since Norfund has committed itself both financially and operationally to the SN Power and Aureos systems in the coming years, it would have been advantageous had it more explicitly set out the strategic consequences involved.

Rather than providing equity to companies seeking financial partnerships, Norfund should be more active in scanning possibilities for development in the actual country and then search for domestic and/or international partners. That would require greater geographical and thematic concentration, of course. Norfund should therefore try to reduce the number of countries in which it operates directly or indirectly – through, for example, Aureos – while continuing to decentralise management structures outwards to the remaining markets in order to focus market knowledge and reduce transaction costs.

The internal risk management system of Norfund does not currently differentiate ex ante between LDCs and other countries when it comes to willingness to take risks. The Norwegian Parliament has explicitly called for such a split in ex ante risk assessments of Norfund's portfolio by setting aside 50 per cent of the fund capital foreseen for LDC investments in a loss account, and 25 per cent for the rest of the fund portfolio. Norfund should follow this up by establishing a system where, in the ex ante risk assessment, higher risks are taken for projects in LDCs. Norfund could manage the fund as one for the LDCs and one for the other countries with different profiles of calculated net loss.

Development effects

It is too early to pass judgement on Norfund's development effects. What is important at this stage, however, is that the funds are invested in the right markets (as elaborated above), in the right projects which maximise the transference of know-how and good business practices. Important technical assistance has been given and business knowledge transferred in several of the investments, even though the portfolio is a mixed bag in this regard. This may be one effect of the widespread strategy chosen by Norfund.

Development indicators are included in Norfund's pre-project screening. It is suggested that this approach should be expanded further to include net foreign exchange earning's savings and certification effects. In addition, the assessments of development impact should be developed further and be given a stronger say in the strategy and investment decisions. "Number of jobs created" is not alone a very useful measure of Norfund's development impact.

With regard to its commitment to follow international minimum environmental and social standards and to observe high ethical standards, Norfund has undertaken substantial work and developed internal guidelines. Improvements could and should be made in some areas, however. For instance, Aureos Business Practices (code of conduct) are undercutting the minimum requirements with regard to such central issues as child labour and the freedom of association. We recommend embedding the work on social and environmental standards more firmly within the organisation and make it a condition for engaging in other funds and investment companies. Aureos' business practices should immediately be upgraded to meet international minimum standards. Generally the standards should be a tool for creating more viable businesses and not primarily a threshold for investments. This implies that investments may be undertaken in enterprises that at the time of the investment do not comply with all standards, but which will be helped to do so through the engagement from Norfund's side.

Partners

Investments, particularly in LDCs, are helped by parallel aid injections. To facilitate such injections the Ministry of Foreign Affairs has given Norfund grants in the form of trust funds.

The guidelines regulating the use of these funds are, however, unclear and they have been used to finance activities more of the nature of Norfund's regular operations. We therefore recommend that consideration be given to moving the administration of the trust fund from Norfund to NORAD. It should remain earmarked as technical assistance to Norfund and be given a new and more precise set of guidelines. Trust fund spending should be more directly linked to projects for activities with positive externalities.

In general, stronger links should be developed between Norfund's activities and NORAD's work for creating a good business environment. NORAD could finance technical support of a kind that not only benefits the companies Norfund invests in, but also has positive externalities for the business climate at large.

Norfund is not and should not be required to invest together with Norwegian companies. However, as an Oslo-based investment fund, Norfund should have good local knowledge of the expertise found in Norwegian companies and should use this knowledge to facilitate cooperation with those companies. In order to attract more Norwegian companies to invest, closer contact at an earlier stage of the investment process should be established. This could be practically done by establishing advisory networks among Norwegian industrialists in relevant sectors. These networks could be used to source useful information in the first screening process, as, for example, the local Aureos investment process and SN Power's investment process.

1 Introduction

The establishment of Norfund in 1997 added a new instrument to Norway's development policy. According to the Norfund Act (1996–97), Norfund shall provide loans and risk capital in the form of equity or quasi equity without subsidy to profitable and viable private enterprises in developing countries and in this way promote business development in these markets. Norfund's purpose is to establish sustainable, viable ventures that otherwise would not have been established due to perceptions of the risk involved. As of 1 January 2000 Norfund is no longer tied to investments with Norwegian companies. On the other side, the 2002 Budget Acts placed Norfund under an obligation to invest a third of its capital in Least Developed Countries (LDCs).

From total assets of NOK 231 million in 1998, the fund grew to NOK 1.2 billion in 2002, and will grow further to NOK 1.7 billion in 2003, given the additional capitalisation agreed in the Government's 2003 budget. In addition to this comes the value of the loans taken over from NORAD, which may add more than NOK 300 million to the fund in the years to come.

This evaluation covers Norfund from start-up to the end of 2002. The principal objectives of the evaluation given by the Norwegian Ministry of Foreign Affairs (MFA) are to assess:

- the extent to which Norfund adds value to central Norwegian development strategies, such as private sector development in developing countries and the goal of poverty reduction
- the extent to which Norfund contributes to private sector development in the countries the fund is involved in
- the extent to which Norfund contributes to key factors in development impact, such as employment, import substitution, export, technology transfer and tax base in the countries the fund is involved in.

It follows that the main thrust of this evaluation should lie in the assessment of relevance, effectiveness and development impacts. In addition, the Terms of Reference (see Appendix 1) request that the measures taken by Norfund to ensure sustainability and efficiency shall also be assessed.

Norwegian development strategy is strongly focused on poverty reduction and hence towards Least Developed Countries. It is also geared at fostering long-term sustainable development enabling people to take responsibility for their own development. Here, developing the private sector is seen as a central measure. These aims have remained the same throughout Norfund's lifetime, but are given even stronger emphasis today than was the case in 1997 (cf. the Strategy for Norwegian support of private sector development in developing countries, 1999; the Norwegian Government's Action Plan for Combating Poverty in the South, 2002).

Two possible investment strategies are open for Norfund. One is a portfolio management strategy where sufficient diversification of the investments help reduce the risk and secure the return to the capital. The other is the direct involvement strategy where active involvement in the companies invested in help boosts their income earning opportunities. This evaluation examines Norfund based on these two options.

Norfund must be seen and evaluated as an independent but integrated instrument. Integrated in the sense that it represents an added element in Norway's development strategy. Norfund was not created to invest in viable projects yielding a high return outside Norway's development strategy. For such financially motivated investments the Norwegian Government has other instruments.

The evaluation of Norfund had to overcome several methodological challenges, two of which should be mentioned here. The first,

assessing the relevance, efficiency and development effects features special challenges given that Norfund represents only one of many similar and supplementary players where the results materialise through their common efforts. Since an analysis of the total effects of Foreign Direct Investment (FDI) on the receiving economies is beyond the scope of this evaluation, the methodological answer to this challenge was therefore to assess FDI theory and studies in general and Development Finance Institutions (DFIs) in particular, and go on to assess Norfund in that context.

The second challenge concerns the fact that Norfund has been in operation for 5 years while the majority of investments have only been undertaken over the last couple of years. The effects we were asked to measure will therefore generally not appear until a later stage. This naturally led the evaluation to focus on the framework for investments set up through Norfund and the different rationales followed by Norfund when undertaking investment decisions as stated above.

The evaluation was conducted during the period 1 September – 17 December 2002 by Fafo Institute for Labour and Social Research (Fafo), and Nordic Consulting Group (NCG). The evaluation team consisted of Mr Bjørne Grimsrud, Fafo (team leader), Mr Jens Claussen, NCG, Mr Stein Hansen, NCG, and Ms Torunn Kvinge, Fafo. In addition, Mr Sergio IC Chitara, CTA Confederation of Business Associations (Mozambique), Mr Ifekhar Hossain, ACNABIN & Co (Bangladesh), and Ms Myrna Moncada, NCG (Nicaragua) joined the evaluation team when undertaking the field studies.

A number of stakeholders representing public and private sector institutions in Norway and the three selected countries for field studies (Bangladesh, Mozambique and Nicaragua) were interviewed. Visits were made to Aureos in London and Norfund's sister organisations – Industrialisation Fund for Developing Countries (IFU) in Denmark, Swedfund in Sweden and Commonwealth Development Cooperation (CDC) in Britain, as well as the respective development authorities. Four workshops were held, one in each of the countries selected for field studies and one in Norway. Stakeholders provided important feedback at these workshops. The terms of reference defined the three countries where field studies should take place, based on recommendations from Norfund. It may have been more prudent to leave the selection of countries to the consultant in charge of the evaluation. However, the three chosen countries did secure a wide geographical coverage and examples of the main modes of operation.

To underline the phase of development in which Norfund as an organisation finds itself, we should mention that its largest investment to date (comprising 25 per cent of its capital) was made between the time the tender was sent out by the Ministry of Foreign Affairs (MFA) and the evaluation started. Examination of this important investment, in Statkraft Norfund Power Invest (SN Power), was therefore included in the evaluation remit with the understanding of the MFA Evaluation Unit.

The ToR are appended together with lists of persons met and documents consulted. In addition to this come the interviews made with Norfund staff at all levels and search in Norfund's archives.

The evaluation team would like to express its appreciation of the forthcoming manner in which Norfund staff at all levels met this evaluation. The team would also like to thank everyone we consulted for their contributions and support, including MFA in Oslo and Norway's embassies, NHO for co-hosting the Norwegian stakeholder seminar, NORAD, Aureos and SN Power.

2 Capital, Technology and Know-how Transfer

Most of the capital, probably as much as ninety per cent, invested in developing countries is domestic capital. Nevertheless, attracting foreign capital is important for most developing countries, and it is through its function of making foreign capital available that Norfund is supposed to add value to central Norwegian development strategies (cf. White Paper, Odelstingsproposisjon 13, 1996–97). The first task will therefore be to assess whether this type of development investment fund constitutes a relevant instrument for private sector development.

2.1 Capital, a bottleneck for development?

The question can be addressed through at least three ways. First, through macroeconomic analysis. The estimates from this analysis show that capital is in short supply (see below). A second method is to ask the opinions of entrepreneurs; they tend to cite lack of capital as one of a couple of main obstacles to growth. Lastly one could ask investors for their views; they tend to report an excess of capital and competition for financing the few viable projects.

According to national statistics, a wide gap exists between domestic savings and investment needs in most developing countries, and in Africa in particular. At present growth and saving rates, the annual net need for external financing for developing countries is estimated to be US$ 141 billion. Assuming that the millennium goals of reducing poverty by a half between 1990 and 2015 are met, Africa alone will need external financing equal to 12 per cent of the region's gross domestic product (GDP) or US$ 86 billion annually, rather than US$ 27 billion at the present growth level (Gottschalk, 2000).[1] One leading cause is low domestic savings and the interest paid on external debt. This, however, is not the full story. According to Hernando de Soto (2001) this capital shortage does not cause low domestic savings, it is the absence of reliable and legally enforceable property rights (collateral) through which savings can be turned into usable capital. A third significant factor is the large amount of unregistered savings transferred from developing countries to overseas accounts. After conferring with the businesses themselves in developing countries, the World Bank (2001) was led to understand that the top five constraints for expansion are: corruption, inflation, financing, political instability and infrastructure. The finance providers, both national and international, take a different view, however. According to the CDC it is not a lack of investment funding that is the problem in Africa but a shortage of opportunities (European Commission 2002). The same views were reported by the domestic investors interviewed for this evaluation, i.e., that capital in the form of foreign direct investment (FDI) or domestic private capital per se is not the bottleneck for investments, but rather a combination of a lack of promising projects (often linked to lack of entrepreneurial and management skills), an insecure business environment (unstable currency, inefficient and unpredictable legal systems and regulations and lack of land registers etc. making it impossible to establish necessary collateral) and a lack/the cost of capital. From the field studies we learned, for example, that at first sight it might seem as if investments are low in Bangladesh because there are not enough "good" projects available for funding there. After closer enquiries it becomes clear that the reason for the capital drought to otherwise profitable and viable projects in Bangladesh is a lack of adequate infrastructure compounded by a lack of good governance – as widespread corruption and failing legal and order institutions testify.

So rather than talking about capital as a bottleneck for development, we have three elements affecting each other: an insufficient legal

1) According to Gottschalk, in Africa growth alone will not be sufficient to reduce poverty.

environment, a lack of viable business projects; and a shortage of capital. Development Finance Institutions (DFIs) need to be made relevant by addressing all three aspects directly or through coordination with other development institutions.

2.2 Foreign direct investment impacts on domestic industry

A priori, there is very little one can say in general terms about the impact of Foreign Direct Investments (FDIs) in the growth of a developing country. Impact will vary significantly between countries, depending on the set of domestic policies that facilitate industrial growth, the kind of FDI that enters the country, and how competitive existing domestic industry is. Sometimes the outcome is the "crowding out" of domestic industry and loss of jobs; in other cases it is the "crowding in" and creation of new jobs and enhanced growth.

The conditions that are likely to result in the latter development can be summarised as follows: FDIs that introduce new goods and services are more likely to generate a net growth in the domestic capital stock than FDIs that take over the production of goods already being made locally. In the latter case, the "crowding out" effect can cancel out the FDI contribution, and result in zero net investment and job creation. Empirical studies of African FDIs from 1970 to 1996 show such a cancelling out to have happened, while in Asia FDIs stimulated capital formation during that period, and in Latin America, resulted in a net "crowding out" impact.

A sector specific analysis is always needed before any substantive conclusions can be made regarding the growth and development impacts of greenfield[2] and take-over FDIs respectively. Such analysis must always be realistic as to the baseline scenario, or the alternative to a proposed capital intensive FDI. A realistic baseline could well be that labour intensive domestic producers will have to close down regardless, due to international competition, and in those cases, "crowding out" FDIs must be revisited in a somewhat altered light. Even buyouts, where many employees are made redundant, could be development enhancing with an FDI if the alternative is complete shutdown of the plant in question. If the FDIs were to "crowd out" a home market producer and they are not put in, the baseline could be the continued use of the old supplier's goods, at higher prices and poor quality, as could have been the case in the Bangladesh cement industry if it had not opened up for foreign investments.

For export companies, the conclusion is more straightforward: FDIs have created lots of new formal sector jobs both directly and indirectly. By upgrading skills and labour productivity, FDI paves the way for higher paid jobs and poverty reduction. Even where FDIs settle in export processing free zones and pay below the legal minimum wage, the alternative is often even worse.

Trans-national subsidiaries generally provide for more and better skills upgrading and training than local counterparts, and the trans-national companies (TNC) trained staff are more mobile and thus spread the knowledge more widely throughout the economy. Whether an FDI brings in the latest technology or second-hand equipment is not a major concern. What is important for successful technology transfer is the recipient's ability, capacity and capability to install, maintain and use what is brought into the country, and this should determine which vintage of technology is the most appropriate.

The most attractive feature linked to FDI, seen from a home country perspective, is hence the potential know-how and technical knowledge transfer following such investments. This is done trough introducing new goods and serv-

2) A greenfield project is one that is developed and run from scratch, in contrast to, for example, taking over an already existing project.

ices and upgrading production systems at all levels.

2.3 Risk

An investment may come in two forms, portfolio management and direct involvement. Following a portfolio management strategy, one takes the performance of an individual company for given, and focuses on mitigating risk by investing in different companies often through the stock market. Generally, it is possible for a portfolio manager to diversify away all unsystematic risk, and most of the benefits of diversification can be achieved with fewer than 15 stocks, distributed over different sectors and/or countries. What is left is the systematic risk, which is connected to high levels of corruption, political instability, exchange rate unpredictability, etc. in several of the least developed countries, hereafter called "political risk". The aim for the portfolio manager is to correctly estimate the quantity of the relevant risk factors allowing a calculation of the required rate of return and the net present value of a project, the resulting information providing a basis for investment decisions. If the expected cash flow is relatively low and the political risk fairly high in developing countries, it may be difficult to find projects showing positive net present value, so-called viable projects. In addition to the relevant risk, the required rate of return on any asset will depend on the size of the risk-free rate of return and on the expected rate of return on the market portfolio, which are market-determined variables and beyond the control of a single investor (see Box 2.1).

Part of the hesitation of private investors to invest in developing countries derives from a natural slowness in entering into new markets and from risk anticipation exceeding actual risk. DFIs may in this respect (through both portfolio management and direct involvement) act as frontrunners by having more knowledge of the market, thereby reducing the gap between perceived and actual risk and reducing the time for making investment decisions.

Direct involvement implies operational control with the investment target. When calculating the net present value of a project in a foreign country, one method is to mark up the required rate of return to cover the political risk. Another method is to reduce expected cash flow in accordance with the chances of expropriations or additional unwanted actions by the government. However, with direct involvement – when the investor is familiar with cultural and other relevant factors as well as the actual industry – there is also the possibility to influence the production process and thereby expected cash flow. In other words, while the portfolio manager scans for viable projects, the direct investor creates them. Furthermore, the direct investor may also influence the actual political risk by virtue of being an important economic actor (for an overview of relevant methods, see for instance, Brealey and Myers 1991).

A venture fund may be interpreted as a mixture of portfolio management and direct investment. These funds provide equity to establishments when it is of special interest that the investors or owners have knowledge about the production process. In industrialised countries venture capital is mostly associated with investments in research and development or newly invented products. To reduce the substantial risk connected with these types of projects the investors often either employ existing or try to acquire in-depth market and industrial knowledge in the relevant niche. This competence can flow into the project and will anyway make it easier for the investor to calculate expected cash flow from the venture.

In developing countries production is more of a traditional kind. Here the role of venture capitalists is to gain knowledge about how to achieve highest possible productivity given local input factors and how to cope with the specific country-related risk.

To sum up, foreign as well as domestic investments in developing countries are relatively rare because high political risk requires comparatively high rates of return. A project in Bangladesh may, for instance, have the same

expected cash flow as a project in Oslo. However, where the Norwegian firm is evaluated as viable, the Bangladeshi is not due to the higher risk premium. To reduce anticipated risk, Norfund should have knowledge about Bangladesh as well as the sector the fund is investing in. To improve the expected rate of return Norfund should act as a direct investor helping to create increased earnings for the investment.

Box 2.1 Risk and required rate of return

In accordance with the so-called capital asset pricing model the required rate of return on any asset for which future cash flows are not known with certainty is like the risk-free rate of return plus a risk premium. Furthermore, the total risk can be portioned into systematic risk and unsystematic risk. Systematic risk is connected to macroeconomic conditions or the risk of the economy as a whole while unsystematic risk is specific for each firm or sector. It is possible to diversify away all unsystematic risk and most of the benefits of diversification can be achieved with fewer than 15 stocks (see for instance Copeland and Weston 1988). Examples of unsystematic risk are local strikes in an enterprise or an industry, the competence and ability of the management and acceptance of a firm's new product in the market. Examples of systematic risk are general strikes, wars, climate disasters, etc. When various countries have dissimilar macroeconomic conditions some of the country-specific systematic risk turns into an unsystematic risk as soon as it is possible to diversify the portfolio over these countries.

The contribution of a single asset to market risk is its covariance with the market (eventual world market) portfolio and this is the only risk that an investor would pay a premium to avoid. Although individual investors may not hold well-diversified portfolios the covariance risk is the appropriate measure of systematic risk for a single asset. The risk premium is like the price of risk multiplied with the quantity of risk. The price of risk is the difference between the expected rate of return on the market portfolio and the risk-free rate of return while the quantity of risk is the covariance between returns on the risky asset and the return on the market portfolio, divided by the variance of the market portfolio.

International investments are connected with exchange risk and political risk. There are two types of phenomena to consider in the area of exchange risk, inflation risk and relative price risk. The risk to an agent in a world of pure inflation risk is entirely nominal and can be eliminated by the appropriate indexation of contracts in real terms. (To the extent it is not done it reflects information costs or transaction costs of doing so.) However, exchange rate changes due to relative price movements (which in turn reflect changes in demand and supply conditions) represent real risk that can be hedged only at a cost. Political risk is connected with the threat that the foreign government will change the rules of the game after the investment is made. There are different ways for enterprises operating across boarders to reduce political risk, see for instance Brealey and Myers (1991). Exchange rate risk as well as political risk can be minimized through diversifying investments over countries.

2.4 Development Finance Institutions

Norfund is one of several Development Finance Institutions (DFIs). Most OECD Development Aid Committee members have established some sort of Development Finance Institution. Norfund is a relative latecomer. Together with export credit agencies (ECAs), DFIs make up what is known as the International Finance Institution (IFI). This includes both multilateral and bilateral organisations and is characterised by financing and guaranteeing long-term investments in private sector enterprises in developing countries. Approximately 20 per cent of long-term foreign debt flowing to the private sector in developing countries is provided or guaranteed by IFIs (IFC, 2002). The figures for sub-Saharan Africa are even higher, especially due to DFI investments. This shows that DFIs are significant in mobilising FDIs to developing countries. In addition, IFI financing/guarantees often leverage other international and domestic finance.

IFI financing/guarantees frequently run over a longer term and are accessible to a broader range of companies than other typical long-term foreign debts. The total IFI financing to the private sector in developing countries in 2000 was about US$ 25 billion, of which bilateral DFIs supplied about US$ 2.5 billion and IFC 2.7 billion. The top three bilateral DFIs in 2000 were OPIC (USA), CDC (UK) and FMO (the Netherlands) (IFC, 2002).

The International Finance Corporation (IFC) represents a very special DFI, both by its size

and by being a part of the World Bank Group. Established in 1956, IFC is the largest multilateral source of loan and equity financing for private sector projects in the developing world. It promotes sustainable private sector development primarily by:

- financing private sector projects located in the developing world
- helping private companies in the developing world to mobilise financing in international financial markets
- providing advice and technical assistance to businesses and governments

IFC is to a much larger extent than bilateral DFIs linked to development cooperation through close operational links with the rest of the World Bank system and through having access to trust funds. In its recent new strategy, which also forms an integrated part of the new World Bank strategy for private sector development, IFC will shift its focus towards a more innovative approach, taking the lead in investments in sectors and rural areas that can promote a stronger impact on poverty alleviation. This is in contrast to previous policy, which has frequently consisted more of takeovers and investments with profitability as the main objective.

In this evaluation, Norfund will in particular be benchmarked against other Nordic DFIs such as IFU (Denmark) and Swedfund (Sweden) in addition to CDC (UK). These are all members of the Association of European Development Finance Institutions (EDFI). EDFI comprises all the DFIs in the EU countries plus Norway. IFU has been in operation for 35 years, Swedfund for 25 years, CDC for more than 50 years, whereas Norfund has only been in operation for 5 years.

IFU in Denmark is an independent, self-governing entity limited in its liability to the extent of its net worth. It was created in 1967 for the purpose of promoting economic activity in developing countries, by means of investments in these countries in collaboration with Danish trade and industry. For the first ten years of operations (until 1976) it was financed with earmarked revenue from the “Coffee Tax”. This was meant as a means of providing for the gradual return to poor countries of some of the taxes and duties levied on imports from them, but equally important, it was meant as compensation to Danish companies willing to take the risk of investing in developing countries. The IFU funds are therefore tied to investments by Danish companies. IFU participates as a partner with capital in the form of equity and loans and through board membership in joint venture enterprises in eligible developing countries. They include large and small investments as well as pilot projects, and cover greenfield, expansion of existing projects and privatisation of state-owned enterprises. At the end of 2001, IFU had experience from 449 projects in 71 countries, and a total equity capital of DKK 1.872 million.

Swedfund International AB was established in 1978 and offers risk capital and competence for investments in Africa, Asia, Latin America and Central and Eastern Europe. The clients are primarily Swedish companies planning to establish or expand their business to Swedfund’s investment countries, and require a partner with whom to share the risk. Outside LDCs, Swedfund is committed to tie investments with Swedish companies. Swedfund offers a broad spectrum of financial solutions including equity, loans and leasing. In some cases, Swedfund can also assist the financing of a venture through the provision of guarantees.

CDC was established in 1948 and by 2001 had invested US$ 1.6 billion in 400 businesses in over 50 developing countries. Following an attempt to privatise CDC in 1997, a reorganisation led to a concentration of the engagements in four areas. They aim to make fully commercial returns on their investments. CDC aims to promote the expansion of the business base in these countries and improve the competitiveness of the underlying economies. CDC generally provides finance for expansion capital, management buyouts, management buy-ins and privatisations.

Figure 2.1 Types and product range of some Development Finance Institutions

Organisation	Investments 2000 in US$ mill.	Geographical area	Product focus	Tied/untied
CDC	400	50% to Africa and South Asia, 70% in LMIC and LIC	Equity and fund management	Untied
FMO	339		Equity, loans and guarantees	Untied
IFU	60	Up to LMIC	Equity, loans and guarantees	Tied
Swedfund	12	Up to LMIC	Equity and loans	LDC untied
Norfund	20	33% in LDC, up to World Bank loan threshold	Equity, SME funds and fund management.	Untied
EDFI total	2 000 (approx.)	*	*	*
IFC	2 709	Global, including UMIC	Equity and loans	Untied
DFI total	10 418	*	*	*

The different DFIs have been given different mandates from their governments. Some focus only on developing countries, while others combine this with funds for other emerging markets, especially Central and Eastern Europe. The funds are also from different sources: a few, like FMO, have substantial private funds, but the majority are dependent on public funds. For the DFIs dependent on public funds, new funds have been made available from time to time. CDC has experienced a change, having been notified that no new public fund can be expected.

The types of products offered are also different. Providing equity for direct investments is the most common product. Loans and a combination of loans and equity are also common. Norfund has a stronger focus on investments in SME funds and in SME fund management than other DFIs and has less direct investments together with home country industry.

3 Description and Assessment of Norfund's Operations

Norfund, Norwegian Investment Fund for Developing Countries, was established by law on 12 December 1996 and completed its first full year of operation in 1998. This chapter will analyse how effective Norfund is as a Development Finance Institution.

Norfund shall provide loans and risk capital in the form of equity or quasi equity without subsidy to profitable and viable private enterprises in development countries and in this way promote business development in these markets. Norfund's purpose is to establish sustainable, viable ventures that otherwise would not have been established due to perceptions of the risk involved. From 2002 Norfund was no longer obliged to tie investments together with Norwegian companies. From the same date Norfund came under an obligation to invest at least a third of its capital in Least Developed Countries.

The fund size was NOK 1.2 billion in 2002, and will further increase to NOK 1.7 billion in 2003, given the additional capitalisation agreed in the Government's 2003 budget. In addition comes the value of the loans taken over from NORAD, which may add more than NOK 300 million to the fund in the years to come. From the establishment of Norfund, and most recently repeated in the 2003 Budget Act, the capitalisation of the fund was said to be a temporary arrangement. At some future point in time yet to be decided, Norfund is supposed to operate based on the return of the fund. This statement incorporate, as the evaluation team sees it, the prime guideline given to Norfund by its owner. To operate in the long term based on the return on the fund forms the basis of Norfund's strategy and investments.

It will take approximately ten years from start-up in 1997 before a critical mass of wanted exits has taken place, enabling Norfund to start to reinvest its funds. Prior to that, Norfund will remain, with or without new capitalisation, in an establishing phase. With the existing accounting standards, only future potential losses may be accounted for during this period while future potential gains will not affect the present balance. This implies that during the first years of operation the books will almost inevitably show a negative return on invested capital. Nevertheless, Norfund showed a positive balance in 2002 thanks to the income from loans taken over from NORAD and interest earned on as yet uninvested funds.

Norfund is governed by the Norfund Act (1996–97) and MFA's directives. A board of 5 directors, one of whom represents MFA, and two deputy directors, is appointed by the Norwegian Government. Further to this, Norfund reports to the MFA through annual reports, tertiary financial reports, minutes from the board and biannual meetings.

As of 2002, Norfund has 22 employees, two of whom are seconded to Aureos and SN Power and two to the field (Angola and Central America). The organisational structure of Norfund, including its investments in Aureos and SN Power, is designed to enable larger operations in the future. As described below, the engagement in SN Power and Aureos points towards a fund size in 2007 of about NOK 5 billion. Norfund anticipates growth of the fund to exceed the growth of the organisation.

A key strategic question both for Norfund and its owner concerns when and at which level the fund should close. I.e., how many years should the Government continue to capitalise the fund, and how much might it reasonably be expected to inject? While it is beyond the scope of this evaluation to address these questions in detail, it is important that Norfund and the Government keep them in mind. Assumptions are being made by Norfund today concerning future capitalisation from the Government and how to achieve self-financing in the longer term.

Defending and planning for steady state operations include other considerations, as addressed below. It is important to bear in mind the distinction between the fund and the fund management operations. The fund could be closed and operated with a lower or higher risk and predicted return. The fund could, however, expand to handle other funds with other conditions attached, including, for example, capital raised through the private market. Several other DFIs operate funds in this way. FMO in the Netherlands is an example of a fund manager that raises funds in the private capital market.

Areas of operation

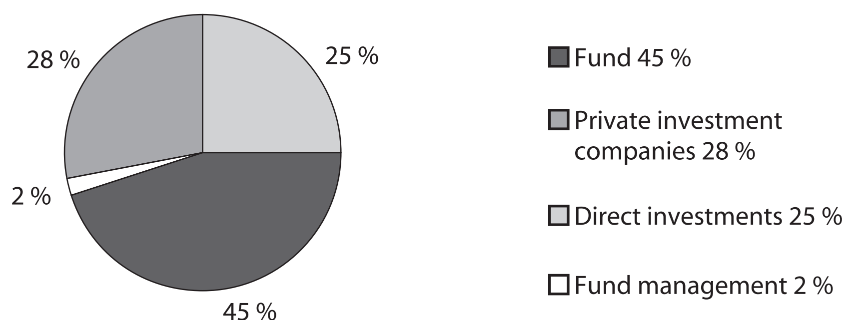
Norfund's organisation and project portfolio have expanded rapidly and in several directions since start-up in 1997. It started to invest in existing funds and identify Norwegian partners for direct investments. The strategy seems to have been a mix of portfolio management and direct involvement, with an edge on diversification strategy rather than involvement strategy. In other words, viable projects have been looked for more than created, resulting in a widespread portfolio. Over the last year, this approach has partly been changed and some strategic areas have been developed, one of which is Energy through SN Power, and another is fund management of SME funds through Aureos. At this point, Norfund is involved directly or indirectly in more than 30 countries in Africa, Asia, Latin America and South East Europe.

Norfund activities can be divided into four main areas:

- direct investments
- investments in national venture funds
- investments in national venture fund management companies
- partner in private investment companies (Statkraft Norfund Power Invest)

Micro finance and leasing projects are found both in the direct investment and venture fund portfolio. These types of investment are hence not singled out here but included in their respective category of direct and indirect investments. In 2000, after a Parliamentary vote, Norfund was given responsibility for managing NORAD's loan portfolio – around 40 loans – as this private sector development tool had been terminated. This represented a management task for Norfund and a potential source of income as the portfolio was taken over at a cost of NOK 1. As mentioned above, the interest and repayment of loans have and will continue to make up a substantial part of Norfund's income in its first year. It is not, however, an active instrument or a strategic engagement for Norfund and hence is not evaluated as such. With the exception of the management of NORAD's former loans, loan and guarantee provisions constitute a small part of Norfund's portfolio. Figure 3.1 shows the relative size of four areas in terms of total invested capital as of December 2002.

Figure 3.1 Funds invested as of December 2002



Initially Norfund had an upper investment limit to Low Middle Income countries (BNP lower than US$ 3.030 per capita in 1998). It was expanded to include countries eligible for World Bank loans (BNP lower than US$ 5,280 per capita in 1998). Norfund's strategy has always been that a third of its capital should be invested in Least Developed Countries (LDCs). As mentioned above, the Budget Act of 2002 turned this aspiration into a condition.

Direct investments

Direct investments are direct part-finance for the establishment of new business schemes, or for restructuring existing businesses. Norfund may finance up to 49 per cent of the investment. Until 2001, direct investments had to be made jointly with Norwegian companies, and may or may not have had a domestic partner. As of 1 January 2002, Norfund is no longer required to tie investments to Norwegian businesses, but may enter into partnerships with any business or company willing to invest. The investments are normally in the form of equity, but are also given as a loan or a combination of equity and loan.

Norfund has on record more than 300 requests from potential partners. Of these, approximately 50 projects have been screened more closely. These 50 projects originate from three major groups of partners:

- developing-country-based companies looking for investors
- Norwegian-based SMEs at an early stage of investment or outsource planning
- large and small professional (Norwegian-based) companies well on the way to realising a project, looking for partners to share risk or available (low cost) equity or loan

Of the 50 projects, as of October 2002, 18 have led to a commitment from Norfund to invest. Norfund has invested or partly invested in 12 of these (two of which were exited by the end of 2002 due to performance problems). The 12 projects comprised investments mainly in industrial production for domestic or regional markets. Around 80 per cent are with large or small professional players (group 3 above). Of the 12 direct investments that have taken place, one is in an LDC country (Bangladesh). This investment, however, accounts for approximately 30 per cent of the capital invested in direct investments. Of the six new committed investments, as of October 2002 two are in LDC countries (Nepal and Zambia) and one partly in LDC (Southern Africa).

Funds

A second strategy has been to invest in national venture funds. Investments in a total of 15 funds are undertaken and four more are committed, of which three are through Aureos. Besides the funds linked to the Aureos system, two of the other funds are linked to the US-based fund manager Small Enterprise Assistance Fund (SEAF), which is the other large manager of SME funds.[3] Of the 15 funds, two have made investments only in LDCs (MINCO in Mozambique and FEDHA in Tanzania) and two partly in LDCs (African Infrastructure Fund [AAIF] and Indian Ocean II fund). Of the committed funds, all are directed wholly or partly towards LDC investments (Aureos Africa funds and the Angola fund).

The first generation of funds Norfund invested in were often set up locally in one country. The results were mixed in terms of returns in US$. For the new Aureos funds the strategy has changed. The funds have been made regional funds (in US$ and registered offshore). Widening the investment horizon, eases currency and country risks At the same time, the investment profile has changed from mainly start-ups and restructuring to capital expansion in promising existing firms, which reduces the operational risks.

Norfund gives high priority to investments via national and regional capital venture funds. This is an effective way to invest through investors with first hand knowledge of the national markets. Additional reasons are the

3) SEAF focuses on providing equity capital and technical assistance to small and medium-sized private enterprises (SMEs).

potential for links between projects identified by the domestic investors in the SME funds and Norwegian industry and the lack of identified direct investment opportunities. If Norfund had limited its investments in funds only without engaging in fund management, those investments could have be seen as mainly portfolio investments. The Danida representatives in IFU were of the opinion that indirect investment management via national venture fund management companies reduces the opportunity to influence and monitor projects considerably. Return on the investments relies very much on the quality of the fund management companies.

Fund management

Norfund have to larger extent than other DFI entered into management of funds and two fund management investments have been made. The major investments are in Aureos.

For several years now, CDC in the UK has operated the companies comprising Aureos today. In 1997, the British Government started preparing for a privatisation of CDC, but this turned out not to be feasible given the current integrated structure of CDC's global activities. A restructuring process was hence started, whereby one of the first measures was to single out the SME venture capital fund management's structure for possible sale. Norfund contacted CDC in this respect and this resulted in the setting up of the new management company Aureos were CDC and Norfund owns half each. In addition, CDC has restructured and concentrated its reaming activities in one investment fund and three operational areas or management companies: Africa, India and Power. In so doing, the British Government has opened up for other funds and development or commercial interests to either invest in some of the four areas or take a stake in some of the management companies, as in the case of Norfund in Aureos. The African and Indian management companies will concentrate on larger deals (over US$ 4 million), while Aureos will concentrate on the SME deals. However, Aureos will have to compete with the other fund management companies in the new CDC structure for investments from the CDC Investment fund. Norfund was also invited to take a share in the Power management company but decided to go with Statkraft instead. Cooperation between this CDC company, known as Globeleq, and SN Power is, however, taking place.

Aureos Capital will take forward, build and manage an existing family of 14 country funds. Aureos is registered in Mauritius but has headquarters in London. Of the 11 national fund management companies, three are in LDC (Mozambique, Tanzania and Zambia). As of September 2002, the committed capital of Aureos funds is US$ 202 million and the Aureos companies employ a total of approximately 80 persons.

One is a small investment in Lafise Investment Management (LIM), a company incorporated in the Bahamas with its main office in Managua, Nicaragua. LIM is a joint venture between the Nicaraguan financial consortium Lafise, of which Norfund holds a 20 per cent share, and Norfund. LIM manages the Central American Small Enterprise Investment Fund (CASEIF), in which Norfund has invested US$ 5 million

In addition to the fund management companies, a small investment has been made in the African Management Services Company (AMSCO), which supplies experienced managers and technical personnel to small and medium-sized private companies in Africa. Customised training services to local managers and staff are offered to upgrade their skills and improve performance and productivity of their company. Currently, AMSCO has placed around 300 managers under contract at 110 African companies. More than 9,000 employees have been trained. In a recent survey, 70 per cent of AMSCO clients reported a positive impact on AMSCO managers and training. Based in Amsterdam, AMSCO has offices in Harare, Abidjan, Nairobi, Port Louis, Lagos, and Accra.

Partner in private investment company: Statkraft Norfund Power Invest

In June 2002, Statkraft and Norfund jointly established Statkraft Norfund Power Invest AS

(SN Power), on a 50/50 basis. The company's objective is to invest in, develop and operate hydro power projects in emerging markets. In function, this investment does not differ much from the direct investments, but in form and size it represents something new and thereby naturally forms an area of operations in itself.

SN Power's business concept is to own and operate hydro power plants on a commercial basis. To start with, SN Power will concentrate on projects in Asia and Latin America. SN Power will prioritise projects with a good return. The company will exercise active ownership with stakes of at least 20–50 per cent in relevant energy projects. On the one hand, the business concept is based on this need for energy for development and the call (most recently by the UN Johannesburg summit) for stepping up the use of renewable energy sources, and, on the other hand, the idea of focusing on areas were Norway could contribute wide-ranging industrial knowledge. In addition, many existing energy companies recognise the need for technical upgrading and consolidation of ownership structures, and are open to possible takeovers. The crisis in the American energy sector, in particular, has resulted in several operators downscaling their engagement in developing countries. This has led to a situation were the price of takeover is, in many cases, far less than the cost of building new. SN Power will therefore start with takeovers rather than greenfield projects. This will also imply a lower risk for SN Power in its establishing phase. Given the long planning horizon for greenfield projects, however, SN Power will start identifying potential in such projects.

As its first engagement, SN Power will take over the management and eventually the ownership of two hydro power plants from Statkraft, located in Laos and Nepal. Furthermore, SN Power is preparing its first investment in Peru. The intention is that the company shall have a capital base of NOK 5 billion within four to five years. In the longer term, it is expected that the company will be listed on the stock exchange. It is expected that Norfund will represent both risk capital and knowledge on investing in and operating companies in developing countries. As is normal in this industry, SN Power has a very long-term investment horizon – often 20 years or more. It is not in the business to buy companies, turn them around and then sell them again. Norfund's interest here is not that extensive, concentrating rather on fostering this type of developing country investment by Norwegian companies. Norfund's exit option in SN Power, therefore, lies in the possibility of selling out to other investors through, for example, a stock market introduction.

As of December 2002, Norfund had invested NOK 300 million and committed an additional NOK 200 million to the new joint venture with Statkraft. With the foreseen additional funds from MFA in 2003, Norfund will reach its primary investment target of NOK 500 million. More than 25 per cent of Norfund's capital will then be invested in SN Power. This is equal to a 50 per cent ownership in SN Power.

3.1 Risk profile

Norfund operates as a mixture of portfolio management and direct involvement. The investment strategy seems to be motivated by a need for diversification and risk mitigation familiar to portfolio managers. The direct involvement varies very much based on the fact that the engagements are many, geographically spread and in many different industries. The engagement in Aureos and the investment in SN Power will effect changes to this picture.

The reason for Norfund's choice of strategy is likely MFA's requirement that Norfund should eventually start operating on the returns on its own investments. This creates a need for Norfund to mitigate against systematic risks of investing in developing countries as far as possible. The result has been several investments in the group of upper middle-income countries not so relevant from a Norwegian development strategy point of view, and representing a further geographical spread out.

It is difficult to see the rationale behind MFA's conditions on Norfund. Norfund should be responsible for maximising cash flow in its engagements in the LDC, LIC and LMIC while the systematic risk of operating in these groups of countries should be taken by the MFA. This means that if ten years from now developing countries in the above mentioned group still perform poorly in general, Norfund would not be yielding an expected healthy return in NOK. But if these countries or a group of them managed to improve their economic performance in line with, for example, the Millennium Development Goals, Norfund should (if otherwise investing wisely) perform well.

Norfund should therefore focus more strongly than today on fewer markets and on creating viable projects through direct involvement and by bringing in industrial partners.

Figure 3.2 Norfund's area of investments

	Upper middle income countries (UMIC)	Lower middle income countries (LMIC)	Low income countries (LIC)	Least developed countries (LDC)
Norfund direct investment approved by Oct 2002	Croatia Turkey (As of 2003, Turkey is regarded a LMIC)	Bosnia, China, Ecuador, Paraguay, Philippines and Sri Lanka	Kenya and Nicaragua	Bangladesh and Nepal
Norfund fund investments approved by Oct 2002 (main countries of operation)	Gabon, Mauritius and Panama	Algeria, Bosnia, Bolivia China, Costa Rica, Ecuador, Egypt, El Salvador, Guatemala, Papua New Guinea, Peru, Sri Lanka, South Africa, Thailand	Honduras and Nicaragua	Congo, Mozambique, Madagascar and Tanzania. (Angola yet to be approved)

Norfund shall invest in both greenfield projects and restructuring. The greenfield requirement is based on the fact that these types of investments may represent a higher added value in forms of capital, knowledge transfer and employment creations than takeovers. Takeovers, on the other side, are less risky and may generate higher returns on the invested capital. Attracting private capital is a long-term objective of both SN Power and the Aureos funds. Such long-term objectives have immediate consequences on investment strategy. SN Power will concentrate on buying existing hydro power stations either from other international companies or in conjunction with the privatisation process in developing countries. Aureos has decided to reduce the number of greenfield investments and focus on expansion, restructuring and trade sale of companies. For the direct investments, the deals in the pipeline are also restructuring rather than greenfield projects.

Part of the calculation of project risks concerns currency depreciation . There are two types of phenomena to consider in the area of exchange risk, inflation risk and relative price risk. The risk to an agent in a world of pure inflation risk is entirely nominal and can be eliminated by the appropriate indexation of contracts in real terms. (To the extent it is not done it reflects the information costs or transaction costs of doing so.) However, exchange rate changes due to relative price movements (which in turn reflect changes in demand and supply conditions and different productivity developments) represent real risk that can be hedged only at a cost. This can explain why the return on investments in Ghana, for example, has been acceptable in local currency but poor in US$ and hence even poorer in NOK.

It should be mentioned that a time horizon of 5 to 7 years, normally considered as optimal for venture capital investments in industrial coun-

tries, is often far too short for investments in developing countries. This is partly taken into consideration by extending the lifetime of the funds by up to 8 to 10 years. There is, however, a clear gap between the expectations from the investors in terms of rapid exits and the experience in the field organisation of the fund managers on the right time to exit.

As to whether Norfund should be less a portfolio manager and more a direct investor is a debated issue throughout the organisation and among its stakeholders. Comments made in the workshops in Nicaragua, Mozambique and Bangladesh indicated clearly that there are several feasible projects in these countries, given the involvement of a competent investor.

Box 3.1 The Minco fund in Mozambique

It is a clear signal of commitment to the financial sector and industry locally and abroad when DFIs like IFC, CDC, Swedfund, and Norfund announce investments in local equity funds like Minco, and Minco commits funds to shareholding in local enterprises with an explicit exit strategy. It attracts local investors to participate even in a capital market where returns to safe government bonds are extremely high. In this respect, each foreign investor, Norfund and others alike, help considerably in mobilising additional capital well beyond its own contribution to help the country grow, create new or better paid jobs, and thus fight poverty. Perhaps most important in this context are the signals that local potential investors receive from such decisions.

However, Minco has so far been careful and clearly risk averse, and turned down nearly all investment opportunities presented for consideration. Even so, given the extremely fragile and uncertain investment climate, and immature private enterprise sector in Mozambique, one cannot exclude the possibility that Minco in fact has been operating at, or near the risk frontier.

One strategy is to co-invest with multinational companies in a region. However, in these kinds of investments, DFIs probably mainly operate as a portfolio investor as it is the multinational company that provides the necessary knowledge about production methods, etc. Multinational enterprises must be assumed to have an expected positive rate of return (corrected for risk) when investing in developing countries. Such co-investments by DFIs do not enhance risk-reduction or the transfer of knowledge except in cases where no investments would have taken place without the DFIs co-financing.

The risk taken in the SN Power investments is of a special nature in relation to the rest of the Norfund portfolio. An investment by SN Power will be followed by a so-called Power Purchasing Agreement with the host Government. The peculiarity of this agreement is that part of the project risk is transferred from the investor to the host country through a commitment by the host country to buy the power produced at some agreed price formulary.

Box 3.2 Example of a currency risk mitigating instrument

The Mobile Telephone Network in Uganda (MTNU) can serve to illustrate one possible currency stabilization arrangement. MTNU and its shareholders have assumed the bulk of the project construction risk, the physical and financial completion risk, and all the operating and financial risks except for the *currency valuation risk*, which happens to be substantial. Having assessed the various liquidity and customer credit risks to be manageable, MTNU's main concern is currency value risk arising from a large proportion of its equity capital and long-term funding costs being in foreign currency while its revenues and variable operating costs are in Uganda Shillings (USH). Its capital value risk exposure on long-term debt increases continuously at a high speed as a result of steady USH depreciation, a situation very similar to that faced by similar investments in Mozambique, for instance. MTNU therefore decided to manage its currency value risk by shifting its funding from US$ and Euro to USH. However, it is constrained by the availability of long-term USH funds and the unwillingness of domestic institutions to lend without credible counterpart guarantees.

The solution in this case has been the Sida guarantee that covers insolvency risk. This guarantee has overcome the aforementioned constraint and opened the door to domestic funding that reduces the MTNU's currency value risk dramatically, making it possible for MTNU to remove its currency value risk on 70 per cent of its long-term debt. The result has been that local currency domestic resources have funded 50 per cent of the projects' total capital costs even though more than 90 per cent of those costs have been for foreign currency capital imports. This approach could prove to be promising for mobilising available domestic capital that has remained dormant in bank accounts or invested in safe high-yielding government bonds, to domestic infrastructure projects and thus reduce the domestic rate of return requirements and accelerate the rate of much needed investments.

3.2 Making capital available

As described in the previous chapter, FDIs of the type provided by Norfund can at best act to crowd in other sources of capital such as private foreign direct investments and private and public domestic investments. There is, however, a danger that the capital only replaces other types of capital and hence does not add value. Though participating in funds and direct investments, Norfund aims to contribute to mobilising additional capital. In the cases of the direct investments and SN Power, at least half of the capital invested is private FDIs.

For international investors – but also for domestic investors – the development of well-managed venture funds represents an additional investment opportunity. Many domestic investors prefer offshore investment nowadays. For Africa, it is estimated that more than 40 per cent of the private capital owned by Africans is placed offshore. However, bringing only a fraction of the offshore or domestically saved capital into work in viable businesses would make this type of venture fund very attractive for private sector development.

From the Mozambique field study we learned that it certainly sends a clear signal of commitment to the financial sector and industry locally and abroad when Norfund announces investments, as in national equity funds like Minco (see box 3.1). This was also a popular view among our informants in Bangladesh. Investments by a multinational company or by an international fund improve the general climate for investments. As stated by one informant, "The best guarantee for a foreign investor is another foreign investor already present in the country."

Norfund has also played a role in Nicaragua, together with its financial partners in the regional investment funds, as a "certifier of viable investments" bringing additional investments into the projects invested in. This "certification effect" has reduced the perceived risk of other potential investors when assessing the market in Nicaragua. One of the main characteristics of the financial market in Nicaragua is the limited financial services available to small and medium-sized investors, Norfund's core target group according to its policy and strategy. The capital market in Nicaragua can be described as highly risk averse since the recent restructuring of the financial sector on the tail of the banking crisis following the previous Government. Only short-term lending is in supply combined with difficulties in establishing

collateral. There are no known national venture capital funds. In this setting Norfund has, directly and indirectly, played a role in supplying medium-term risk capital through a small number of investments to help expansion and the financial deepening of the market. The investments are in the regional investment funds, of which one represents an innovative approach to commercial investments in micro finance institutions.

In the former CDC funds Aureos took over the management of, domestic finance institutions have contributed 22 per cent of the capital and international private institutions 3 per cent. The remainder is DFI capital. No national finance institutions or international private investors have so far invested in the one fund launched after the establishment of Aureos (the Central American fund). This is worrying and should be addressed. Attracting local capital in direct investments and funds is one measure of Norfund's success.

With regard to the potential danger of only replacing other capital – which gives no value added effects to Norfund's investments – some of the other investors have indicated that the investments would have been carried out without Norfund. Norfund was however a preferred partner because of their experience of investing in developing countries and being owned by the Norwegian Government. Some projects turned down by Norfund have also found other inventors, including other DFIs. In other investments Norfund's contributions have been instrumental in realising the project. No general conclusions can be drawn based on Norfund's portfolio alone. The overview of FDI flows to developing countries does allow us to say, however, that DFIs like Norfund add an important amount of capital for investment in developing countries.

Direct foreign investments have the specific features of capital inflow (investments) with capital outflow (dividends) during the lifetime of the investment. Accordingly, the net benefit in economic terms from a national economic perspective is not necessarily reflected in the commercial profitability of the investment. A high level of foreign ownership and return may signify a low level of national value added. To actually determine the extent to which an FDI like a Norfund investment can be justified as promoting private sector development and making a contribution to GDP growth, net foreign exchange earnings at efficiency prices need to be assessed or, even more sophisticated, a fully fledged social cost benefit analysis of the investments needs to be conducted.

There seem to be conflicting objectives concerning sustainability and substitution. On the one hand, Norfund shall invest in projects which are viable in economic terms. On the other, Norfund shall avoid entering into projects that may obtain sufficient financial support from other sources. In addition, to compensate for systematic political risk in developing countries (that is risk which cannot be reduced through diversifying), projects must have relatively high expected returns. Such "super-normal" returns can be achieved through investments in concentrated industries with minor competition or in industries which are exploiting not-replaceable resources, for instance. Therefore, the ambition to compensate for systematic political risk may, to some extent, also be incompatible with supporting a healthy economic development.

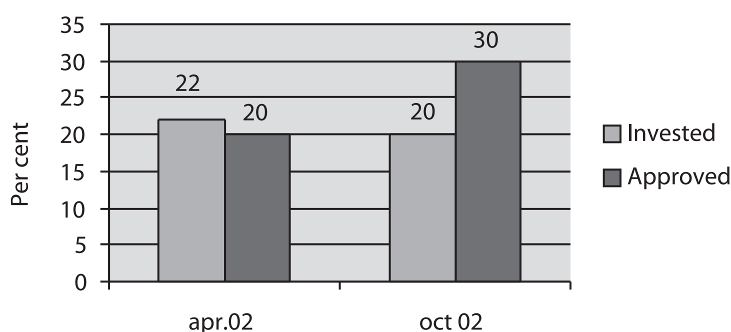
3.3 Investments in Least Developed Countries

As mentioned above, Norfund is obliged to invest at least a third of its capital in Least Developed Countries (LDCs). For direct investments and funds operating only in one country it is not difficult to calculate actual or planned investments in LDCs. For Norfund this includes investments in Bangladesh, Tanzania and Mozambique and approved investments in Nepal, Zambia and Angola (by October 2002). For funds covering regions including LDCs and investments in Norwegian-based companies, assessment is more difficult. In the below figure the percentage of Norfund's portfolio invested in LDCs as of October 2002 has been chosen. This might change over time. Most important

in this respect will be the takeover from Statkraft to SN Power of the ownership of the hydropower companies in Nepal and Laos. This is expected to happen in a couple of year's time and might raise the LDC investments in SN Power from zero to 15–25 per cent depending on the agreed price. For internal Norfund fund arrangements like Norfund Growth Facilities it is natural to only calculate LDC investments as they are approved case by case.

Figure 3.3 shows the percentage of the investments and approved investments, excluding SN Power and fund management investments, devoted to LDC's by April and October 2002. As can be seen, the amount of approved funds has increased during the last half of 2002, due to approvals of new direct investments and the Angola Venture Capital Facility Fund.

Figure 3.3 Investments and planned investments in LDCs



The percentage of approved investments in LDCs is expected to increase further in the short run when the Aureos Africa Funds are approved. However, based on Norfund's placements, future investment and exit plans, in the medium term (2003–4) the percentage of approved investments in LDCs is more likely to fall than rise. The amount of capital actually invested in LDCs is hence not likely to rise substantially in the medium term.

If we include SN Power, and the fact that no funds have been reinvested as yet, the approved investments in LDC by October 2002 will be even lower.

In order to comply with its obligations to invest a third of its capital in LDCs, the value of approved projects in LDCs would probably have to be even higher than one third. In that Norfund has committed itself to investing much of its capital in SN Power and Aureos, where no LDC investment requirements exists, the only instrument remaining over which Norfund exercise full control is direct investments, which could make fulfilment of the requirement much harder.

Compared with other EDFIs, Norfund has a stronger commitment to invest in LDC countries. Neither Swedfund nor IFU, nor CDC, have declared LDC investment goals. IFU has had very few projects in LDCs (52 projects out of 449) over the 35 years the fund has existed, and only approximately 12 per cent of its capital has been invested in LDCs (compared with Norfund's 20 per cent). IFU has, however, a declared goal of investing more in Africa, and was granted DKK 750 million in 1997 over a five-year period, each disbursement being conditional on the previous year's investments of the same amount located to poor (but not LDC) countries in Africa and elsewhere. CDC has a commitment of investing at least 70 per cent of its funds in Africa or South Asia (no LDC requirements), an objective which the organisation presently exceeds. One of Swedfund's objectives is to invest half of its capital in low

income or lower-medium income countries. In regard to LDC's Swedfund has less than 7 per cent of its investments in LDCs, or 14 per cent of its development country portfolio. The fact that Norfund operates with as high an expected return on investments as Swedfund and IFU underlines Norfund's stronger LDC focus.

3.4. Development impact

As laid down in White Paper no. 13 (1996–97) to the Odelsting and the Norwegian Ministry of Foreign Affairs' instructions, Norfund shall work to: create employment; generate national export and substitution of import; establish a taxation base; encourage uses of national resources; nurture capital building; and create positive spin-offs to other ventures and industrial clusters. In its own investment guidelines Norfund lists three areas of development impact when screening potential projects: geographical coverage; local development effects; and environmental and social standards. The local development effects comprise an analysis of potential export earnings; direct job creation; transfers of knowledge; and funds invested through FDIs.

Measuring the impact of development cooperation is difficult and debated among researchers. Dengbol-Martinussen and Engberg-Pedersen (1999) conclude that it is almost impossible to separate the effects of development cooperation from the effects arising from other international (private capital) and national (state and private sector) bodies working in conjunction with the aid. Swedfund, IFU, CDC and Aureos records confirm this view. But some indicators can be identified. The first indicator on any list will be the long-term viability of the project, which can be measured by the value added over the time of the production (the sum of profit, wages and taxes paid). It is important to note that profitability only makes up one of three elements. The long-term viability of an investment should be the first development measure to look for. For the purpose of this evaluation, however, it is not a useful measure as the relevant projects are relatively young.

Knowledge transfer

A second, but very important candidate for the measurement of development impact is knowledge transfer. Publicly supported foreign direct investment (FDI) incentives (such as Norfund) can be justified by reference to capital market imperfections, but the strongest arguments are based on the prospects for knowledge spillover (Kokko, 2002). According to the World Bank, the knowledge gap between developed and developing countries is as significant as the savings gap or the foreign exchange gap (World Bank, 2002). Regardless of the form of ownership, FDI has been found to contribute significantly to technology transfer and more effective technology utilisation in developing countries, and it happens in one or more of the following ways:

- FDI can introduce technology that is new to the country, and this can lead to production and use of new commodities;
- FDI with technological components normally demands development of new skills and experience; i.e. human capital upgrading; and
- The degree and volume of domestic innovation depends on the number of new ideas accessible; thus a new idea increases the stock of ideas which in turn stimulates domestic innovation.

As technology and know-how are to some extent public goods, foreign investments can result in benefits for the host country. For instance, domestic firms may be able to improve their productivity as a result of forward or backward linkages to the foreign-owned firm. This diffusion of know-how might also take place through workers and management training in the foreign-owned company. Added to this come the effects of a country adapting to an investment-friendly environment where enforcement of law, accounting standards, transparency etc., represent improvements benefiting not only the foreign firms but the business community at large. In addition, capital inflows of this type raise the domestic investments almost one to one. The effects are strongest for those countries least integrated

with international financial markets, like many African countries (World Bank 2001).Venture capital funds, such as Norfund, should contribute by bringing in relevant industrial partners and by virtue of their own knowledge of establishing operating businesses in developing countries and helping to transfer industrial knowledge. Norfund's direct investments have produced a mixed bag of experiences. All investments have included some knowledge transfer from Norfund and its investment partners. However, in some cases knowledge has proved difficult to adapt to new environments. In other cases the Norwegian co-investor lacked the financial strength or managerial capacity to successfully survive a longer or more costly start-up period than anticipated.

With regard to the investments in the funds, it seems as if Norfund's role as an active owner with a seat on boards of directors, as is the case with Minco, and acting through Aureos, indirectly contributes business and management knowledge to Minco's investments. However, the other foreign owners obviously adhere to high professional standards as well and represent investors with similar experiences to those of Norfund. There will be occasions when Norfund happens to have niche expertise available from a Norwegian company, just as one of the other owners may have the technical, business and management skills needed to do the job successfully.

Businesses primarily learn from each other in the market place. Operating on commercial terms and in conjunction with private companies is therefore a form of knowledge transfer, and in this environment Norfund is germane in a way that public institutions such as NORAD and the World Bank cannot be. In Nicaragua, Norfund has improved the financial discipline and stricter commercial orientation of the investments made through active board representation in the companies as well as by employing financial controllers and providing management advisory services and counselling to the companies. The approach in Angola might develop into an example of innovative ways of breaking new ground in this particular country. However, the approaches in both Nicaragua and Angola have a high cost compared to the current and planned size of the portfolio. Some of the costs are not even reflected in Norfund's accounts since they are being covered by grants from NORAD and MFA.

The industrial knowledge transfer will normally be in the form of an industrial co-investor. As an example, the challenges to Norfund or similar international venture development financing organisations in the funding of economic activities in a developing country are (a) to identify the sector that will have the maximum catalytic (or triggering) effect, and then (b) to identify the company in which to invest. Situated in Oslo, Norfund should have a competitive edge in bringing Norwegian industrial partners on board, given the existence of such relevant partners. Transaction costs could be lowered through collaborative ties between Norfund and Norwegian enterprises thanks to a common language, cultural factors etc. Joint ventures with such enterprises could be in sectors in which Norway has advanced expertise (energy, petroleum, fish hatcheries, telecommunication and other infra-structural sectors) and which have a great need for investment in the actual developing country. By lowering the risk to the Norwegian partners and by providing partners with additional knowledge about the concrete venture, investments that otherwise would not have taken place could be realised.

In summary, a combination of three inputs should be requested from Norfund. The first being investor skills. Here Norfund, as an active owner, should be able to contribute – and it seems as if it has – to the development of the companies in which it has invested. The wide geographical and industrial diversification has, however, lowered efficiency and raised costs in this area. The second is local knowledge of the markets in which the companies operate. This is particularly important where this is not held by, for example, a Norwegian co-investor. Norfund has room for improvement in regards to this form of competence, but through Aureos

the access to such capability has increased considerably. The last input should be knowledge of relevant Norwegian and other industrial partners. Here Norfund is working systematically to establish connections with potential Norwegian partners, but the number of co-investments and the success of industrial knowledge transfer are such that a stronger focus here would be beneficial.

In the case of SN Power, two of the three elements are very much in place: the investment skills and the knowledge of Norwegian industry. Norfund could help bring in the third element of knowledge, that of the investment climate and opportunities in the country concerned.

Employment

Besides the financial information, the only quantifiable information collected by Norfund on development effects is the number of jobs in the enterprise invested in. By the end of 2002, more than 2,600 people were said to be employed in enterprises in which Norfund had invested. The total employment figure in all enterprises in which the Aureos funds had invested was said to be 55,000. Number of employees is not a very valuable piece of information in itself. First, the information has not been collected over time. Second, there is no direct link between rises in employment rates and development effects. The number of jobs can be used as an indicator of the size of the investment fund's activities. However, the way these figures are collected today by Norfund, and others, does not tell us very much of the development impact.

The role of Norfund with regard to direct job creation has probably so far been marginal and one should not expect radical changes here as the portfolio matures. Examples can be found for both the creation of new jobs and the loss of jobs as Norfund enters into a company. At CETA (Mozambican Construction Company), in Mozambique, staffing levels fell by two-thirds upon the entry of Norfund. Generally speaking, this is because many of the direct and indirect investments are takeovers and restructuring of existing business. However, indirect job creation through domestic demand of goods input and services created by these well-operated enterprises probably is important.

Generating national export, substitution of import and encouragement in the uses of domestic resources

It is too early to draw firm conclusions on the effect of Norfund's investments in generating national export, substitution of import or encouragement in the uses of domestic resources. However the analysis of and weight given to these objectives in the early investment phase indicate room for improvement. A common framework for answering this type of questions is to assess the net foreign exchange earning's savings of a project. It is measured by the export value or import substitution value of the product or services produced, subtracted import value of inputs and exported dividends. This measure will capture the benefits of engaging domestic capital and other inputs into the project. Distribution of returns on investments to foreign owners may have negative consequences for the balance of payments. This is a widely debated issue. If backward linkages are established within the country, for instance in the form of national production of machinery and equipment, it would have positive implications for the internal knowledge development as well as for the current account.

In Nicaragua, the manufacture of plywood by Plywood de Nicaragua, S.A. (PLYNIC) is based on domestic resources. The company faces import competition as well as competition in export markets (partly due to the overvalued exchange rate pegged to the dollar with an annual adjustment of only 6 per cent). Even though profitability is low, it does not fully reflect the economic viability of the company. It is the only employment and income opportunity for the more than 200 households in the area. From a development perspective, it could prove to be one of the most viable investments made by Norfund in Nicaragua. The conclusion drawn from the Bangladesh field study is that, until now, Norfund's commitment probably did not contribute much in the way of private sector

progress or to facilitating other key factors of development growth. With regard to SN Power, it is questionable whether it will yield substantial net foreign income-earning savings in its initial phase, except where the energy produced is exported. The reason lies in the business concept practised by SN Power, where hydro power stations will be bought from other foreign investors. Further to this, while the Power Purchasing Agreements associated with these takeovers secure dividends to be taken out of the country they also transfer part of the risk to the host country government. A special case is the investment in Future and Hope. This is an initiative outside the mainstream Norfund activities which focuses on export to Norway. The enterprise itself is registered in Norway, but the activities bring about increased export opportunities for developing-country-based enterprises. Knowledge of production, processes and designs are transferred to the producers in developing countries. In Bangladesh, one of the topics brought forward in the workshop was the need for assistance in design and marketing in handicraft industry.

Creation of positive spin-off to other ventures and industrial clusters

Returning to the fact that Norfund's investments are in their initial stages, one cannot expect to capture the full potential of spin-offs. Looking at Norfund's own strategy and priorities, the two activities can be said to be promising with regard to potential spin-offs.

First, the establishment of Aureos represents an good opportunity for Norfund to acquire a network of national investors and influence the policy of a fund attracting capital from several DFIs. The establishment of, and support to, national venture funds and fund management companies may also be seen as an important step in establishing industrial clusters where such investment banking and active ownership should be an integrated part. Aureos bears comparison in this respect to several initiatives hatched by organisations such as Norfund. The most important achievement so far is the increased focus on Africa (see figure 3.4). There are, however, plans at Aureos to enter new geographical areas not least South America. It means of course an even wider geographical spread, i.e. the opposite of the recommended concentration. There already exists a large engagement by DFIs in South America and the value added by Aureos will therefore be less than in other geographical areas.

Second, Norfund is focusing on what could be called the commercial micro finance market. This market, which includes leasing, is directed towards small businesses, often in the process of growing out of the informal economy and into the formal economy. The investments are labelled micro finance, although several are actually financial services to micro, small and medium-scale enterprises.

The demand for micro finance is brisk in Mozambique, to mention just one country. There are tens of thousands of potential micro finance candidates in the formal and informal sectors. The demand is for anything from very short-term loans (a week or two for US$ 25) for day-to-day operations, to larger investment loans of perhaps US$ 2–3000. The field study revealed that most clients in this market are so dependent on the lenders that they do whatever it takes to properly service their loans. Loan recovery is therefore much higher than that experienced for large industrial loans from the commercial banks, even if interest rates on small loans are very high. As micro credit cooperatives (Tchuma) and specialised micro credit institutions (GAPI, Socremo and UGC) have developed very effective systems for client assessment and loan monitoring, they appear as immediately interesting candidates for Norfund to discuss working with under its adopted strategic dimension called micro credit. The extremely difficult capital market in Mozambique – in particular, the virtual impossibility of producing collateral for SMEs and informal sector participants – has resulted in a growing leasing market, which appears to carry low risk and good returns even if the leasing legislation and tax regime have yet to be properly developed. The present leasing companies (ULC, BIM and BCI) are interested in collaborating with Norfund to expand the supply of services in the leasing market.

Figure 3.4 Aureos African exposure

Country	Income level	Office	Existing funds	Planned funds	
Angola	LDC			Southern Africa Fund	On hold
Benin	LDC			West Africa Fund	Optional
Botswana	UMIC			Southern Africa Fund	Optional
Ethiopia	LDC			East Africa Fund	Optional
Gambia	LDC			West Africa Fund	Optional
Ghana	LIC	Accra	GVCF US$ 5.8 m	West Africa Fund	
Cote d'Ivoire	LIC			West Africa Fund	On hold
Kenya	LIC	Nairobi	Acacia US$ 19.6 m	East Africa Fund	
Madagascar	LDC		IORF app. US$ 10 m		On hold
Mali	LDC			West Africa Fund	Optional
Mauritius	UMIC	Port Louis	MVCF US$ 7.5 m IORF US$ 18 m	Southern Africa Fund	Optional
Mozambique	LDC	Maputo	MINCO US$ 14 m	Southern Africa Fund	
Namibia	LMIC			Southern Africa fund	Optional
Nigeria	LIC			West Africa Fund	
Rwanda	LDC			East Africa Fund	Optional
Senegal	LDC			West Africa Fund	
Seychelles	UMIC		IORF		
South Africa	LMIC			Southern Africa Fund	
Tanzania	LDC	Dar-es-Salaam	Feda US$ 13 m	East Africa Fund	
Togo	LDC			West Africa Fund	Optional
Uganda	LDC			East Africa Fund	
Zambia	LDC	Lusaka	ZVCF US$ 12.5 m	Southern Africa Fund	
Zimbabwe	LIC	Harare	Takura US$ 6.4 m	Southern Africa Fund	On hold

In the case of FINDESA in Nicaragua, micro credit is one area where development goals can be combined with the Norfund risk profile. FINDESA, a financial company targeting micro and small companies, arranges credits in the range of US$ 150 to a current limit of US$ 37,500 with an average of US$ 1,600. The credits may be term loans or line credit through micro finance NGOs. FINDESA is one of the most profitable investments of the Lacif portfolio of nine micro finance institutions in Latin America despite being one of the smallest institutions (still limited economy of scale), with a portfolio yield of 16.8 per cent as of September 2002. As an institution that provides financial services unavailable to clients through regular banks, FINDESA is obviously contributing to the development of the financial market and financial deepening. With a number of non-regulated micro finance institutions in the market, it may face competition from concessional finance and donor supported micro finance projects, however; the latter occasionally cause non-sustainable market developments, however, in contrast to FINDESA. Even though a detailed portfolio assessment has not been made, FINDESA we rate as a viable and favourable investment in private sector development for the promotion of micro and small-scale enterprises.

Norfund has already contributed to the development of the commercial micro credit market through financial contributions, and can continue to do so. However, it should do so through cooperation with the leading operators in this field.[4] Strategic use of micro credit as a private sector development instrument requires special development competence not held, and not likely to be acquired, by Norfund. In this

4) It was noted in the workshop in Bangladesh that Norfund could be of use in providing venture capital to small firms with good ideas. Scandinavian countries have a market for handicrafts. Norfund could support marketing, which would add value to projects financed through micro credits.

respect, as in the case of business environment building, Norfund should be a part of a wider network including IFC and NORAD. Norfund has an understanding of bottlenecks in private sector development in the market place which it could channel to NORAD and the World Bank, who could help translate the knowledge into strategies for improving the business environment.

Box 3.3 Swedfund exit study

In an assessment of the development effects of 37 of Swedfund's direct investments some years after Swedfund had exited these companies, it was found that 70 per cent were still running. Domestic capital had replaced Swedfund in most cases. The original business idea in half of the enterprises remained, but most had diversified. The tendency was to orientate more towards domestic markets and to make more use of local input in production after Swedfund's exit. Generally speaking, the new owners had reduced the requirements for return on capital.

The jobs covered by the 37 investments altogether fell from 8,000 to 4,000 in the remaining 70 per cent of the surviving enterprises. The survey concludes that technology transfer had been the most important development effect over time. New technology was brought into the host country in 31 of 37 investments. The human capital was upgraded through training programmes in 29 cases. (Source Andante Consulting, 1997).

3.5. Environmental, social and ethical standards

Setting and implementing standards are difficult tasks. The added value lies in bringing enterprises up to international standards, not only entering into enterprises already adhering to these standards. In a development perspective, a very active approach therefore needs to be adapted to standards. A clear reference to standards should be set and understood throughout the organisations. The day-to-day work should focus on how to implement these standards in organisations (where they make a difference), and not to punish those who need assistance.

It is positive to note that Norfund has formulated guidelines for environmental issues, human rights, ethical issues and workers' health issues related to HIV/AIDS. They can function both as guidelines for upgrading business organisations in which Norfund invests directly and the general business environment. For the Aureos funds, Norfund has been active both in extending existing standards to environmental and health and safety concerns, as well as in training investors to adhere to standards in the field.

In some cases, these efforts leave visible traces, as seen in the countries visited. One example is Minco in Mozambique, which is careful to determine the social standards adhered to in companies it considers investing in. Minco will not invest where children are systematically employed, and it requires active recognition of workers' rights. Minco is also actively involved in a wide set of activities beyond the pure business strategic aspects. The most important relate to awareness-building and mitigation measures aimed at reducing the spread of HIV/AIDS and how to deal with occurrences of HIV/AIDS among staff members in companies where Minco is a shareholder. Here Minco practices follow Norfund's action plan for combating HIV/AIDS, but it appears that Norfund's approach and standards add little to what Minco is already doing in this area. In the case of CETA, for example, it is quite clear that given the strict labour protection provided for in the legislation, it is simply good business practice to have an active and respectful policy and practices with regard to the HIV/AIDS problem, and CETA has pioneered such work in Mozambique, which appears to have a lot to do with the views of CETA's managing director.

However, in other prominent cases the awareness of setting and working with standards could have been better. Aureos Business Practices (code of conduct) undercut minimum requirements in the core labour with regard to

such central issues as child labour and the freedom of association, for instance. In the funds outside Aureos, Norfund has not been particularly active in helping to upgrade standards where these fall short of Norfund's own standards, as is often the case with regard to core labour standards.[5] In the Nicaraguan portfolio, for example, development tasks and standards appear to be addressed by the regional funds using an admixture of parameters taken from their various financial partners, and are reflected in one or two paragraphs in agreements. There are no further actions in this regard. Taking into account the emphasis Norfund places on social and environmental concerns, the limited attention and measures that have been taken up to now seem to warrant a more serious approach. When Norfund sets out to co-invest with multinational enterprises, conditions concerning labour and environmental standards should be present in the contract.

The overall picture is one of high environmental and social standards. This does, however, reflect the fact that, with regard to the direct investments, many of the industrial co-investors have their own sets of standards (such as Scansem and ABB) which are generally at least equal to Norfund's standards. With regard to funds, other DFIs have their standards again. It is therefore difficult to claim that Norfund has added value in any significant and measurable way along such dimensions. What can be said is that by adhering to its principles Norfund provides important moral and ethical support for local leaders who have pioneered work on standards in poor countries. By applying principles as investment conditions, Norfund could use funds or direct investments to influence other companies to take such matters to the board and incorporate them into the strategy and mainstream of operational activities.

Taxation base and transparency

In the cases where Norfund investments lead to higher profits and more and better paid jobs, taxation bases grow through the tax on employees' wage incomes and the tax on profit. Norfund's internal ethical guidelines require an open and orderly attitude towards taxation. It implies that the companies must be registered and report properly to national tax authorities.

The funds in which Norfund is investing use taxation planning to reduce tax revenues, just as private sector enterprises would do in the same situation. The dividends are often exempt from national tax under foreign investment tax holiday programmes. The funds and management companies (Aureos and others) are generally registered offshore in places such as Mauritius (in the case of all Aureos funds), the British Virgin Islands, the Bahamas, and Cayman Island. This secures better legal protection for the investors and may not therefore be primarily for reducing taxes. However it also reduces the amount of information available for the host country of the investment, and as such is an unwanted practice. The development of offshore banking is a problem for developing countries to the extent it contributes to making illegal and harmful financial transactions easier, but at the same time reflects the poor business environment in the same countries.

Given that this practice is necessary for legal protection and political risk reduction, Norway could help reduce the negative transparency effects by requesting that Norfund and Aureos only use offshore locations with taxation agreements with Norway and the country where the investments are undertaken, or help establish such agreements. Such information sharing would be in line with the OECD initiatives aimed at allaying harmful tax competition (OECD, 1998 and 2000).

3.6. Organisational efficiency

As of 2002, Norfund is very much still under creation. From the above analysis, we see that the organisation is expected to possess investment skills, country and market knowledge and

5) A wide gap has prevailed until recently between many of the European DFIs and many TNCs, on the one hand, and the IFC on the other with regard to including the core labour standards into business practices. Which might explain why Aureos is not meeting these standards, although both CDC and Norfund adhere to them.

knowledge of potential Norwegian industrial investors. In addition, it should be able to make investments with maximum development impact and, at the same time, maintain an acceptable level of profitability in high-risk country environments. The experience of other venture capital firms and DFIs underline the importance of a minimum of industry knowledge although its provision is primarily the responsibility of the industrial partners.

Widespread

The types of instruments used differ from other DFIs but are not more diversified. However, Norfund has a wide geographical and industrial coverage in its portfolio.

The present structure of Norfund's investments implies that bodies other than Norfund itself mainly undertake end user investment decisions, causing several difficulties. One concerns the ability to invest a third of the capital in LDCs, as stipulated. The target is only partly carried over to the bodies making the concrete investment decisions (such as SN Power board, the different Aureos Fund Investment Committees etc.).

Investments are made in SN Power and Aureos on the basis of the continued inflow of funds to Norfund and the ability to mobilise additional capital including private capital. The equity capital in SN Power is supposed to grow to NOK 5 billion in 2006.[6] In the Aureos system, new funds will have to be established in all the operational regions in the next couple of years in order for the management companies to break even. Overall, the Aureos funds will at least need to exceed NOK 1 billion, of which Norfund plans to contribute in the region of NOK 250 million plus. Thus, both financially and operationally, Norfund needs to concentrate on the SN Power and Aureos systems in the coming years, and less on direct investments. It would have been advantageous had the strategic consequences involved been more explicitly set out.

Development assessment

As detailed above, despite many good attempts, more should be done to integrate the work on standards and development impact into the daily investment activities of Norfund. Both Norfund and Aureos have engaged development specialists in addition to their financial and fund manager specialists. While it is necessary to make sure that standards and development thinking are mainstreamed in the organisation, there will be limitations concerning the type of competence Norfund or Aureos needs. Where more special knowledge will be needed when designing effective micro finance schemes or programmes for technical cooperation or fighting AIDS in the workplace, to mention three examples, it might be more efficient to tackle these issues in cooperation with others. That said, it must be stressed that it is Norfund itself that should integrate and measure the development effects of its activities.

Local market knowledge

A key requirement is in-depth knowledge of the markets in which to invest. Our field work in Bangladesh showed how important and how demanding this can be. The establishment of Aureos was a major step forward for Norfund in this respect, linking Norfund to an organisation of 80 national investors working out of 14 offices in developing countries with years of experience under CDC management. An integrated Norfund and Aureos should provide an organisational structure which reduces the risk of investing in developing countries and the transaction costs of linking up Norwegian and other industrial partners. Taking over an existing organisation also has its down sides in terms of flexibility losses. The organisation already has offices in places outside the prioritised areas of Norfund, it requires, as mentioned, new funds to operate and it is headquartered in London, which may mean overlapping responsibilities with Norfund's in Oslo. An alternative strategy which Norfund is already pursuing to an extent, could have been to invest directly in national management

6) This includes funds from potential new investors, making Norfund a minority shareholder.

companies. On the other hand, however, one should expect synergy effects from bringing the national management companies into an international organisation such as Aureos. It is of significance that Aureos, through its operations, will manifest these effects.

Norfund, for example, has made a significant investment in building up institutional capacity and market experience in Nicaragua (and Central America). The approach to invest in fund management companies and having representation in the region, has boosted quality and added value to Norfund investments enabling them to avoid several of the problems faced by investments in other regions. There is an increasing number of investment opportunities in Nicaragua (as well as Central America), within the SME segment as well, but each of these opportunities are too small to warrant the transaction costs of pursuing them. However, the high cost of maintaining active participation and needed presence in the region in order to maintain quality of investments has a trade off in costs. To reduce the relative size of the transaction cost, the portfolio needs to be expanded.

There are challenges concerning the flow of information from a multinational enterprise to Norfund as a minority stakeholder. Multinational enterprises often have mergers and acquisitions on the agenda. The restructuring of a company is mostly surrounded by secretiveness in the first phases of the process to prevent actions from competitors or influencing stock market prices. It may be difficult for Norfund to get sufficient information during certain periods, as was the case in one of the projects studied in this report.

Especially in countries where corruption is a severe problem, it is important to build up networks and understand the workings of the markets. One way of achieving this would be to draw on the knowledge held by NORAD and the Norwegian embassies.

Loan portfolio

As mentioned in the introduction, the NORAD loan portfolio has not been subjected to a special evaluation. Through managing this portfolio, however, Norfund gains increased knowledge of Norwegian firms operating in developing countries and the operations themselves. This represents positive learning effects for the Norfund organisation. It might also represent a challenge in the cases were Norfund is engaged through some of its other instruments in, for example, competing companies.

Norfund's trust fund

A general trust fund and a Balkan trust fund were established in 2000 with the objective of covering expenditures above normal operating costs for initiatives taken to stimulate investments in developing countries and to secure the success of investments. The funds may not be used to subsidise a project as such, but to contribute to real risk mitigation, increased knowhow through consultant and leadership training, and implementation of management systems.

All in all, NOK 27 million has been committed to these funds by MFA over the years from the private sector development item in the aid budget. In addition, funds have also been made available from NORAD for concrete projects in 2000 and 2001. In the guidelines issued by MFA, it is anticipated that the Norfund staff are the applicants and that Norfund management makes the decisions on the disbursement of the fund.

Norfund needs access to the type of "soft money" that the trust funds represent. The running of the trust funds, however, seems to be too interlinked with daily operations. The activities supported by the trust funds are often of a very general nature, such as "General following up of direct investments", or they are closely linked to ongoing activities, such as the costs of establishing Aureos (London office and Mauritius holding company). These funds are not included in the accounted running costs of the different activities since they are supposed to cover extraordinary activities. The activities sponsored by the trust funds are, in many cases, difficult to distinguish from the ordinary Norfund activities, which causes real

administration costs to be underestimated and less developmental added value in the use of the trust funds. The operating costs of Norfund for 2002 was NOK 33 million, while the use of trust funds was NOK 5.6 million.

Cooperation with other development institutions

While there is a close collaboration and coordination between the World Bank and IFC as regards private sector development work, this does not appear to be the situation with regard to European DFIs. For instance, the British Department of International Development (DFID) reported that contact with CDC could have been better, as did the Swedish and Danish development authorities with regard to Swedfund and IFU. The same lack of close collaboration can be found between Norfund and NORAD. This is in contrast to IFC/World Bank, where typically Country Assistance Strategies are prepared by the World Bank Group as a whole, including IFC as field mission participants. IFC activities are often accompanied by piggy-back World Bank technical assistance for capacity and competence-building to make it more attractive for other investors to join in. There does not seem to be any similar country assistance strategic coordination between NORAD and Norfund, and not very much communication between the two either locally or at head office. While it is understandable that Norfund needed time to establish as an autonomous entity following the history of NORAD's private sector lending arrangements, it should by now be possible to work more closely together to generate synergies and productive joint initiatives, in a similar manner to that of the World Bank and IFC.

Financial efficiency

Measuring the financial efficiency of Norfund is not straightforward. The use of trust funds to finance activities, which other DFIs take from their regular budgets, makes comparison with other similar organisations difficult. Apart from this any comparison would require an analysis of the tasks each organisation is set to accomplish. Norfund is supposed to partly focus on LDCs, which is relatively difficult and hence more costly. Furthermore, Norfund is a small fund with a relatively high number of small and medium deals (also with regard to direct investments), which again is more expensive than larger deals per unit of capital invested. Norfund has also been committed to serving Norwegian industry, which in general lacks experience in investing in developing countries. Since few Norwegian enterprises have been interested in foreign investments, even with the assistance of Norfund, the fund has tended to address every serious deal regardless of geographical location or industry. Norfund estimates its own operating costs at 2.7 per cent of the total fund capital, which might be slightly less than Swedfund's but more than IFU's. However, as emphasised above, these administrative cost shares are not really comparable among EDFIs because of the different trust fund accounting practices and variations in areas of priority and types of product.

Norfund is a young organisation and the potential for improving efficiency is identifiable here as in most organisations. However, the message must be that the route to higher efficiency is primarily linked to how Norfund views its tasks rather than how it performs them. A more focused approach would be the most important measure with regard to efficiency.

4 Conclusions

It is as a Development Finance Institution that Norfund is supposed to add value to central Norwegian development strategies. In this evaluation Norfund is assessed on four levels:

- **relevance** shall state to what extent Norfund is a relevant and valuable instrument against the background of Norwegian development strategies
- **effectiveness** shall indicate to what extent Norfund has achieved the stated objectives in terms of private sector development
- **development impacts** shall indicate Norfund performance with regard to a set of indicators listed in the ToR under "Scope"
- **efficiency** shall state whether the resources spent are reasonable in comparison with outputs achieved and with other schemes and financing institutions.

As detailed in chapter 1 under methodology, most investments undertaken by Norfund are in their initial stages and their full effects can only be anticipated. This naturally led the evaluation to focus on the framework for investments set up through Norfund and the different rationales followed by Norfund when undertaking investment decisions.

4.1. Relevance

Our review of the development studies literature and our fieldwork made it clear that capital per se is not a limiting factor for private sector development in most developing countries. Instead there exists a mutual connection between lack of capital, lack of good projects and lack of a proper business environment. In order to be relevant, DFIs need to address all these aspects directly or in coordination with other development institutions. Non-commercial development institutions will not on their own in the same way as a commercial DFI be able to address these questions, given that much of the learning and development process will have to take place in the marketplace.

Furthermore, market imperfections exist where private investors are generally risk averse towards investing in developing countries. Risk-taking DFIs with strong local knowledge and experience in investing in developing countries can thus act as frontrunners, creating signal effects to the private sector and developing the domestic finance market and business environment through their operations.

Venture capital funds operating as portfolio movement but with an in-depth knowledge of investing in developing countries is hence a relevant instrument. Even more relevant will be a venture fund directly engaged in the projects. Where the portfolio manager scans for viable projects, the direct investor creates them

Looking at the relevance for setting up a Norwegian DFI, there has not been a strong demand for a financial partner to share risks with Norwegian companies. The number of direct joint investments with Norwegian companies were fewer than anticipated by Norfund. Important exceptions can, however, be identified in Norfund's portfolio. Although acting as a risk sharer through equity may not seem to be particularly important, this type of co-financing could be made more attractive by combining it with technical support. Norwegian businesses generally lack experience of developing country engagements. Business activities abroad involve higher transaction costs than at home due to the need to acquire country-specific knowledge in the shape of policy and legal frameworks, business opportunities, etc. Norfund should focus on enhancing services for potential Norwegian investors by offering even more extensive investment and management skills and developing country market knowledge on their behalf.

The general contribution of DFIs to private sector development and the emphasis put on pri-

vate sector development by Norwegian development authorities give Norfund relevance, independent of its relevance for Norwegian industry.

4.2. Effectiveness

Norfund's aim is to achieve a healthy return on invested capital[7] within the areas of operation laid down in the Norfund Act and instructions given by Parliament and/or Ministry of Foreign Affairs.

In addition Norfund is planning to operate without additional capitalisation in the future. It has always been the intention to supply new funds only during a limited running-in phase, after which Norfund should operate on the basis of returns on investments. This was reiterated most recently in the 2003 Budget Act. Naturally, it has had a strong effect on project decisions investment strategies, portfolio diversification etc.

The implication of requiring Norfund to operate on investment returns is equal to relocating the risk away from the Norwegian Government to Norfund. Norfund is diversifying its portfolio among several countries and industries in order to reduce risk, but at the expense of a focus on direct involvement in the LDCs and other Norwegian development country partners.

It has also probably resulted in a more conservative attitude towards risk than historically has been the case in Swedfund and CDC, for instance. Norfund tends therefore to look for projects promising relatively high expected cash flows, limited currency risks, and involving larger companies within the SME area and sectors where host countries take much of the project risk (hydro power). Further, expanding existing firms is preferred to start-ups. Finally, Norfund diversifies investments in upper middle-income countries. Since CDC faced similar constraints on future funding, strategy realignments were undertaken as described above.

Given that Norfund is supposed to shoulder all risk from investing in developing countries its response is to diversify its portfolio and investing in countries and regions that those made priority in Norwegian development strategy. It would be a more effective use of resources if MFA took over some of the risk and reined in Norfund's area of operations. In practical terms it would mean MFA requiring Norfund to invest a third of the capital in LDCs, as it is obliged to do, and that the upper country limit should be reduced from World Bank loan threshold to lower middle-income countries. Norfund should further, as today, be required not to invest in projects that can attract sufficient private capital, and/or are based on monopoly profit or rent seeking. Within these limits Norfund should operate on commercial terms and try to make as high a return as possible. If capital is lost due to systematic risks in the shape of downturns in economic growth in the developing world, more capital should be made available to Norfund. But if capital is lost due to poor fund management other measures should be taken. Norfund should not subsidise individual projects or engage in projects where the outcome is more likely to damage domestic and other capital rather than promoting development.[8]

For Norfund this would mean a significant reduction in portfolio diversification, because the anticipated risk differs systematically between LDCs, lower middle-income and upper middle-income countries. Greater concentration should, on the other hand, raise the income potential of its engagements.

The introduction in 2002 Budget Act of a higher loss fund for LDCs indicates in any case that Norfund should manage the portfolio as one for the LDCs and one for the other countries with different profiles of calculated net loss. For investments in LDCs, 50 per cent of the capital is assumed to be covered against loss, for investments in other LICs and above, the equivalent rate is 25 per cent. Measures should

7) Norfund's guidelines recommend a gross annual return on projects of more than 15 per cent in NOK.

8) However, writing off invested capital is not directly equal to capital losses if new businesses are benefiting from existing production facilities or know-how.

be taken to distinguish between risk in LDCs and LICs and LMICs. Norfund should conceive of them as two separate funds with separate risk profiles. It would enable the organisation to better differentiate ex ante risk-taking and contribute to achieving the investment of a third of the capital in LDCs while opening markets at the risk frontier to additional FDI by "certifying" viable investments.

Norfund present investment structure allows other bodies (such as SN Power board, the different Aureos Fund Investment Committees etc.) to make end user investment decisions. This represents a challenge for Norfund in order to undertake the necessary adjustments for adhering to the LDC investment conditions. Both financially and operationally, Norfund will have to concentrate on SN Power and Aureos in the coming years. It would have been advantageous had Norfund set out the strategic consequences involved more explicitly.

On the operational side it is particularly the currency risk not due to inflation (which cannot be avoided through swaps and other financial instruments) that needs to be examined closer. Currency risk is a part of the project risk but its origin rests in national policy frameworks rather than the projects themselves (projects with hard currency income could be seen as a mitigation of the currency risk). In general terms there are strong arguments against subsidising currency risks, focus should be on improving business environments rather than reducing the eventual negative impact on the exchange rate through subsidies which could send the wrong signals to national decision-makers in developing countries and encourage what is called "moral hazard" by reducing the costs of inefficient policy decisions.

Nevertheless, currency risks could be a point of departure for scaling up investments in developing countries because, as described earlier, some of the costs associated with currency risks are higher for foreign than domestic investors. As Norfund's portfolio shows, some projects have yielded healthy returns in local currencies but without reaching an acceptable return in NOK due to currency rate depreciation. That said, viable enterprises have been established and co-investors have been rewarded with a healthy return in the local currency.[9] Norfund's investments would not represent an incentive for "moral hazard" in any host country.

Creating viable projects (and not simply scanning for them) requires a strategy for even stronger geographical and industrial concentration. One might look to the priorities made in the private sector development strategy and to try to achieve a higher degree of cooperation with NORAD. The foregoing suggests also that Norfund in the future mainly should focus on building up human resource capacity in management companies in the regions close to the market.

Reducing the upper limit for investments from World Bank loan threshold (US$ 5,280 per capita income in 1998) to lower income countries (US$ 3,030 per capita income in 1998) will reduce investment opportunities in Eastern Europe. Given the need to concentrate resources in Norfund, engagement in Eastern Europe would not necessarily represent an interesting option or a critical value added to Norwegian development strategy and should be considered ended.

4.3. Development effects

Having established that Development Finance Institutions are a) relevant instruments for private sector development; that b) Norfund as such is contributing to development; but c) that its approach (eventual self-financed operations) and operations (market and industry knowledge) are more risk averse than other DFIs historically; what are the development effects?

9) The extent to which this situation can and will occur depends on the scope of the national capital market in the host country. The more open the capital market the more interest rates would reflect currency risks and hence the less difference between Norfund's return requirements and the return requirements of the domestic capital.

Despite its risk mitigating strategy, Norfund stimulates FDIs in developing countries. Although some projects may have found alternative investors, others have definitely not. The capital investment contributed by Norfund is, however, only marginal in the capital markets it operates. The "certification" effects and ability to attract private funding into its investments, as documented in this evaluation, are most likely more important.

Important technical assistance has been given and business knowledge transferred in several of the investments, even though the portfolio is a mixed bag in this regard. This may be one effect of Norfund's wide-ranging investment horizon, of course. Most projects need industrial knowledge that Norfund does not have, nor is supposed to have. Norfund has to draw on industrial and local market know-how. A stronger industrial network is needed both in Norway and in the countries where investments are undertaken, implying a stronger geographical and industrial focus. Access to a network of national fund managers through Aureos may be one answer here.

Norfund reports on the number of employees in the enterprise invested in. While this says something about the size of the portfolio it says little about the development effects. More benchmarks are included in Norfund's pre-project screening where three development impact areas of potential projects are given: geographical coverage; local development effect; and environmental and social standards. The local development effects are comprised of an analysis of the potential export earnings, direct job creation, transfers of knowledge and the FDIs invested. It is suggested that this approach should be expanded to include a focus on net foreign exchange earnings' savings and certification effects as a comprehensive measure of actual contribution to development.

The net foreign exchange earnings' savings are the export value or import substitution value of the product or services produced, minus the import value of inputs and exported dividends. This measure captures the benefits of engaging domestic capital and other input into a project and is hence a much wider indicator than export earnings alone.

Certification effects include the signals sent to private sector investors that investments in a particular project or in a certain country in general can be viable. Clearly, first hand knowledge of the investment climate in the concrete country and the ability to pick and/or make winners are vital here involving undertaking an active ownership role while continuously focusing on financial and operations management and enforcing high social and environmental standards. Operating with reasonable success in difficult markets such as Mozambique and Angola are examples of strong certification effects.

With regard to its commitment to follow international minimum environmental social standards and to observe high ethical standards, Norfund has undertaken substantial work not least in the area of HIV/AIDS, and developed internal guidelines. The overall picture is one of high environmental and social standards. This does, however, reflect the fact that many of the industrial co-investors and other DFIs have their own set of standards. That said, improvements could and should be made. For instance, Aureos should not be allowed to uphold its Business Practices (code of conduct) which undercut minimum requirements in respect of child labour and the freedom of association. With regard to standards, it is important to initiate a process whereby standards are set and understood by the organisation. Investments should be evaluated not on present performance but on whether Norfund believes they can be developed to adhere to the relevant standards.

Norfund should work more systematically to internalise development effects and standards in its assessments, decisions and actions at all levels of the organisation. It is important that the development effects are assessed more thoroughly and are given a larger say in the investment decision process, both with regard to the direct investments and the investments

made through the funds. Generally the standards should be a tool for creating more viable businesses and not primarily a threshold for investments. This implies that investments may be undertaken in enterprises that at the time of the investment do not comply with all standards, but which will be helped to do so through the engagement from Norfund's side.

4.4. Efficiency

Norfund is a young, rapidly developing organisation. It has, in this respect, shown an ability to employ a variety of instruments and work in different geographical locations. Investment in regional and national investment funds, together with other DFIs, have been a good approach to building up know-how and portfolios in markets which from the outset have been new to Norfund, allowing it to draw on expertise from the more experienced bilateral and multilateral DFIs with a significantly longer track record than Norfund. It has also served as an opportunity to establish long-term relationships with partner DFIs (such as CDC).

The more dispersed activities, the greater the costs of getting adequate country and industry knowledge. It seems that Norfund had limited knowledge of Bangladesh, for example, as a target for investments, and of actual industries within this country. Rather than providing equity to companies seeking any type of financial partner, Norfund should be more active in scanning possibilities for development in the actual country and then take up the search for domestic and/or international partners.

It is evident that investments, in particular in LDCs, could be helped by parallel grant aid to support the development of the business environment of these enterprises, such as management skills and marketing with regard to venture capital funds. Some of the technical assistance that accompanies investments is also more of a public service than actual help to enterprises or investment funds and justifies being supported by grant aid without distorting the commerciality of the operation. Norfund has received such grants in the form of trust funds from the Ministry of Foreign Affairs. The guidelines for these MFA funds are, however, unclear and they have been used to finance what could be seen as ordinary Norfund activities. Their real operational costs and viability are thus obscured. The trust fund should be linked more directly to projects, to activities with positive externalities and for enhancing immediate business environments, and could also be organised differently in order to enhance Norfund-NORAD cooperation.

Norfund should adjust its current institutional strategy towards a greater presence in core markets. Being closer to the markets will be Norfund's main comparative advantage over private investors. Market and the business climate know-how in the countries is the most important factor for Norfund to maintain a viable portfolio. Sector and sub-sector knowledge should be acquired through technical and financial partnerships with private investors.

Working with other DFIs has proven to be a practical approach to safeguarding against limited knowledge and experience in the first years of operation. However, now that this knowledge has been internalised within Norfund, concentrating on the core markets and decentralising management to these markets would boost market knowledge, reduce transaction costs (costly headquarters such as Norfund in Oslo and Aureos in London) and improve monitoring and management of the equity participation significantly. Likewise, Norfund should not spread beyond fund management. Within the core activities, however, currency risk management and internal strategies for following up social and environmental standards should be strengthened. A long-term goal for Norfund should be to operate the fund in a way that makes the organisation competitive in the private fund sector.

5 Recommendations

By improving the integration of its key competence of financial investment skills within the overall Norwegian strategy for private sector development, Norfund could maintain and increase its relevance and added value to the overall development objective of poverty reduction. The following recommendations are made based on this evaluation:

- Time has come to start planning the consolidation of Norfund. This process should start with MFA being more specific with regard to making capital available for Norfund. It needs to be more precise in guiding Norfund in what is meant by "being at the risk frontier". Further, MFA should adjust Norfund's operating specifications by taking the systematic risk of investing within the frames given by the priorities laid down in Norwegian development policies.

- In order to be able to invest a third of the capital in LDCs, Norfund needs to adjust its present investment strategy. The difficulties in achieving this should be acknowledged, especially if doing so is conditional on a healthy return in NOK. Systematic risk associated with this type of conditioned concentration of the portfolio should be taken by MFA and not by Norfund.

- Norfund should be instructed not to invest in upper middle-income countries. Systematic risk associated with this type of conditioned concentration of the portfolio should be taken by MFA not by Norfund

- In order to achieve a higher percentage of investments in LDCs and LICs, Norfund needs to increase its knowledge of these markets. Rather than provide equity to companies seeking any type of financial partner, Norfund should be more active in scanning possibilities for development in the actual country and then search for domestic and/or international partners. This will require geographical and thematic concentration. Norfund should try to reduce the number of countries in which it operates parallel to decentralising its management structures within the remaining markets in order to increase market knowledge, reduce transaction costs and build stronger sector knowledge. This should be in coordination with Aureos. A stronger Norfund focus combined with a Norwegian private sector development strategy would strengthen both parties.

- The internal risk management system of Norfund does not currently differentiate ex ante between LDCs and other countries when it comes to willingness to take risks. Norway's Parliament has explicitly called for such a split in ex ante risk assessment of Norfund's portfolio by setting aside 50 per cent of the fund capital foreseen for LDC investments in a loss account, and with 25 per cent for the rest of the fund portfolio. Norfund should follow this up by establishing a system where, in the ex ante risk assessment, higher risks are systematically taken for projects in LDCs. Norfund could manage the fund as one for the LDCs and one for the other countries with different profiles of calculated net loss.

- The currency risk should be given special attention in the investment process. New currency risk mitigating instruments could be developed by Norfund and other relevant Norwegian development institutions. This should not, however, compromise Norfund's commerciality and demand for healthy returns on its capital in local currency.

- The development indicators should be further elaborated and allowed to

influence strategy and investment decisions more than has been the case thus far. The stand-alone number of jobs created is not a very useful measure of Norfund's development effects.

- The work on social and environmental standards must be better embedded in the organisation and made a condition for engaging in other funds and investment companies. Aureos' business practices should be upgraded to meet international minimum standards on child labour and freedom of association. The standards should be a tool for creating more viable businesses and should not primarily be a threshold for investments. This implies that investments may be undertaken in enterprises that at the time of the investment do not comply with all standards, but which will be helped to do so by Norfund directly or indirectly.

- Stronger links should be developed between Norfund and NORAD's work to create good business environments. NORAD could finance technical support that not only benefits the companies Norfund invests in but also has positive externalities.

- It is recommended that the administration of the trust fund established by MFA for Norfund be moved from Norfund to NORAD. It should remain earmarked for technical assistance to Norfund with a new and more precise set of guidelines. The trust fund should be used more directly to projects and to activities with positive externalities.

- In order to attract more Norwegian companies to invest, connections at an earlier stage in the investment process should be established. This could be practically done by establishing advisory networks among Norwegian industrialists in relevant sectors . These networks could be used to give advice in the first screening process. The local Aureos investment process and SN Power's investment process are two obvious cases.

Appendix I Terms of Reference

The establishment of a Norwegian investment fund was first suggested in the report of the Commission on North-South and Aid Policies, Official Norwegian Report (NOU 1995:5). This initiative was followed up in Stortinget's Recommendation S. no. 229 (1995–1996).

Norfund, Norwegian Investment Fund for Developing Countries, was established by law the 12th of December 1996. In line with its mandate, the Storting has expressed an interest in evaluating Norfund's operations and its aims.

The total assets of the fund are presently 1,4 billion NOK.[10] In 2002, the annual capital inflow is 395 mill. NOK. Owned by the Norwegian Government the fund is headed by a government appointed board of five members, three representing the private sector.

According to the Norfund Act (1996–97), Norfund shall provide loans and risk capital in the form of equity or quasi equity without subsidy to profitable and viable private enterprises in development countries and in this way promote business development in these markets. Norfund shall invest in countries with a lower BNP than 5295 USD per. inhabitant.[11] Norfund's purpose is to establish sustainable, viable ventures that otherwise would not have been established due to perceptions of high risk. With the exception of the management of NORAD's former loans, loan and guarantee provisions constitute a small part of Norfund's enterprise. Direct investments and indirect investments represent the main force of its activity.

According to the Proposition no. 13 (1996–97) to the Odelsting describing the background and justification for Norfund and the Norwegian Ministry of Foreign Affairs' instructions to Norfund, it is foreseen that private sector development may serve to create the following objectives: to create employment, generate local export and substitution of import, the establishment of a taxation base, to encourage uses of local resources, nurture capital building, as well as create positive spin-off on other ventures and industrial clusters. Simplified, investments may for example provide jobs, create income, and generate tax revenues, which again can provide the basis for developing countries' own efforts within areas such as health and education.

Direct investments have up until now been made jointly with Norwegian companies, and may or may not have a local partner. Here, Norfund may finance up to 49 percent of the investment. Direct investments are utilised to part-finance the establishment of new business schemes, or as part of a restructuring of existing business activity. Direct investments are made in joint ventures with local partners. Up until this year, Norfund has co-invested with Norwegian businesses. As a consequence of the OECD/DAC Recommendations on Untying Official Development Assistance to the Least Developed Countries as of 1.1.2002, Norfund is no longer restricted to Norwegian businesses, but can now enter into partnerships with any business or company willing to invest.

Norfund also supports local entrepreneurs indirectly through investment in and management of local venture funds. Indirect investments imply that capital is placed in local venture funds enabling these to further finance local business activities. Norfund invests single-handedly, or in cooperation with similar institutions, such as the Commonwealth Development Corporation (CDC) and the International Finance Corporation (IFC) and the Inter-American Development Bank. Norfund and CDC have formalised their cooperation by establishing a fund management corporation for local funds aimed at small and

10) 1,01 bill. NOK, pluss loan portfolio increase.
11) The WB's and the IMF's threshold.

medium-scale local enterprises, Aureos Capital. Aureos manages what were previously CDC's fund management schemes for 14 separate funds with a capital of 175 million dollars US.

According to Norfund's overall objectives, investments in Least Developed Countries (LDC) should represent approximately one third of the fund's portfolio and a quarter of its overall investments. In some LDCs as well as some Low Income Countries (LICs), Norfund engages in particular private sector schemes, such as indirect investment in microfinance institutions, and leasing.

Through its emphasis on corporate social responsibility Norfund incorporates other development factors than those directly connected to economy. Norfund projects aims to emphasise favourable impact upon gender dimensions, job safety aspects, as well as respect for international labour conventions. Norfund has formulated guidelines for environmental issues, human rights, ethical issues and workers health issues related to HIV/AIDS. These issues are to be raised locally through representation on local executive committees, through choices of projects and through advocacy of the business-related implications of such issues.

In 1998 the fund's total assets were 231 mill. NOK. This first year Norfund made direct investments worth 61.3 million NOK, and indirect investments for 57.4 mill. NOK. By categories, its investments were 7% loans, 45% local investment funds and 48% direct investments. In 1999 loans were 3%, while the percentages of direct and indirect investments were almost balanced. In 2000 there were no loans altogether, direct investments were 35% while investment funds were 65% of total assets. Norfund however, emphasises that these numbers change rapidly. At the end of 2001 the total of Norfund's investments were 31 investments, half of these were direct investments in partnerships with Norwegian companies. At this point, Norfund is involved in Africa, Asia, Latin America, the Middle East and South East Europe.

Major objectives.

The principal objectives of the evaluation will be to assess:

- The extent to which Norfund adds value to central Norwegian development strategies, such as private sector development in developing countries and the goals of poverty reduction.
- The extent to which Norfund contributes to private sector development in the countries the fund is involved in.
- The extent to which Norfund contributes to key factors for development impact, such as employment, export or import substitution, technology transfer and tax base in the countries the fund is involved in.

Scope.

The evaluation will include, but not necessarily confine itself to, the following items.

- The evaluation should include a comparison between Norfund and other past and present private sector development schemes, comparable to Norfund, both in Norway and abroad (such as CDC, IFC, Swedfund and IFU). What are the advantages/disadvantages of Norfund compared to previous/other private sector development schemes? Have previously made experiences been taken into account in the development of Norfund and its strategies?
- How effective is Norfund in fulfilling its purpose? To which extent has Norfund promoted private sector development in developing countries, and to which extent is it expected that it will do so. To which extent does Norfund establish ventures that otherwise would not have been established due to high perceptions of risk? The evaluation should make an overall assessment of Norfund's present practices and its main activities of direct and indirect investments, and formulate recommendations as to how it could improve its performance.
- Could other business activities be added to Norfund's modus operandi that significantly would improve its function?

Should Norfund to a greater extent direct resources to lending operations? To what extent would such a practice affect the overall objective of the fund?

- How does Norfund ensure its own sustainability and efficiency as a financing institution?
- What are relevant Norwegian businesses' experiences of Norfund? The evaluation should explore the relationship between Norfund and relevant Norwegian businesses. In the last years there has been a reduction in the share of Norfund's direct investments. This is so, although an increase in direct investments is emphasised both by Norfund itself as well as by the Minister of International Development. To what extent are relevant Norwegian businesses aware of the opportunities offered to them by Norfund? If relevant businesses are aware of the opportunities offered, why is it that such opportunities are not taken advantage of?
- The Minister of International Development has encouraged Norfund to increase its attention to LDCs. What is the distribution of the investments, geographically and in DAC/IBRD country categories. What developments in the LDC investment-portfolio have been made? To what extent have these investments been successful?
- The Proposition to the Odelsting no. 13 (1996–97), the MFA's instructions to Norfund, and Norfund itself list a number of objectives and effects of employing private sector schemes as a development strategy (page 1–2). Focusing on specific Norfund projects what are their primary and secondary effects? How do the different Norfund activities (direct investments, indirect investment and fund management) conduce these objectives? What are the advantages/disadvantages of these various activities?
- What are the effects of Norfund's involvement upon local economies – formal as well as informal?
- How does Norfund ensure that its social and environmental standards, such as basic workers' rights, basic human rights, are respected? With a focus on particular Norfund projects, what mechanisms have proved efficient in contributing to the implementation of these standards?
- Does the close corporation with Commonwealth Development Corporation improve or limit the possibilities of Norfund to realise its own objectives? Does Norfund provide added value to existing international institutions, and if so, is it cost effective?
- Recently, the Minister of International Development launched "Fighting Poverty, the Action plan 2015 for Combating Poverty in the South". In this plan, private sector development was presented as a valued initiative in the fight against world poverty. The evaluation of Norfund represents an opportunity to illustrate connections between business sector development and poverty reduction. Using examples from field visits, the evaluation should illustrate the causal connections between the different Norfund activities and poverty reduction.
- How is Norfund's relation to NMFA and NORAD? To what extent are Norfund's overall objectives and strategies dependent upon coordination, cooperation and coherence with UD/NORAD policies and practices? How could this be improved?

Methodology.

The study will comprise:

- Literature study: Evaluations of other private sector schemes, both multilateral and bilateral. Literature should also include country strategy reports, monitoring reports, policy formulations etc.
- Statistical overviews: National statistics of relevant countries, Norfund statistics, CDC statistics, relevant statistics from multilateral institutions, such as the UN and the Bretton Woods institutions.
- Interviews with relevant stakeholders in the Norfund scheme: ministries, multilat-

eral and bilateral agencies, Norwegian companies, businesses and funds invested in, relevant embassies and authorities in countries invested in, relevant organisations (NGOs) in countries invested in, local people affected by such investments etc.
- Case-studies from 3 countries: Nicaragua, Bangladesh and Mozambique, which encompasses both macro and micro analysis, including network studies, to as far as possible determine the effect and efficiency of the various business activities in different contexts. The choice of countries is made in cooperation with Norfund, to represent a selection of Norfund activities that has existed for a period of time.

Evaluation team.

The evaluation will be conducted by a team of three to five professionals possessing documented expertise in the following fields:

- Theories of social and economic development, or development economics.
- Business economics analysis, including an understanding of venture fund investments and commercial investments in development countries.
- Norwegian and international development cooperation policies and strategies.
- Relevant country competence.
- Excellent language skills in English (both oral and written).
- Fieldwork and evaluation experience.

Time frame and reporting.

The results of the study will be presented in a report of 40 pages. The team will be responsible for the validity of the data included, for the analysis and for the quality of the report. The report will contain all major findings, and will include recommendations and models for possible future changes.

The Study will commence August the 1st, 2002. An inception report will be submitted for discussion with the Ministry (to a time agreed upon). Debriefing and discussions will also take place during the consultants' visits to Norfund and other relevant institutions. A draft report will be submitted no later than the 15th of November 2002. Relevant parties will comment on the draft report before the final version is produced. The technical quality of the final report will be such that it can be printed without any further rewriting or editing.

To ensure that relevant parties learn and otherwise benefit from the evaluation and its recommendations, the consultants will during their work hold workshops in Norway, and in the selected countries. A presentation of the final report shall be made to the ministry and included in the work of the consultants.

Budget.

Tenders should include budgets with estimates of staff time, including preparation, drafting and finalisation of the evaluation, and travel costs. The budget should not exceed 1.4 mill. NOK.

Appendix II Persons Met

Norway

Ministry of Foreign Affairs
Hilde Frafjord Johnson, Minister of International Development
Olav Kjørven, State Secretary
Bjørn Skogmo , Deputy Secretary General
Nils Haugstveit, Director General
Inga Magistad, Special Adviser
Ine Måreng, Adviser
Bjørg Leite, Senior Adviser

NORAD
Else Berit Eikeland, Director General
Tore Selvig, Special Adviser
Jan Dag Andersen, Special Adviser

Norfund board of directors
Arve Jonsen
Grete Faremo
Erik Århus

Enterprises
Per Olav Olsen, Mustad og Søn
Ole Hillestad, ABB
Jannike Berg, Nera
Ola Schippert, Scancem International ANS/Oslo
Øistein Andersen, CEO SN Power
Jon Vea, Director General NHO

Bangladesh

Enterprises
Mr. Naser Ejaz Bijoy, Head of Corporate and Network Banking, Standard Chartered Grindlays Bank
Mr. Graham, Vice President Operations, Scancement International Ltd, Heidelberger
Mr. Rao, Production Manager, Bell Scancement Factory, Rupjanj
Mr. Moyeenul, Plant Manager, Scancement Factory, Rupjanj
Mill Supervisor, Mr. Ismail Hossain, Heidelberg Scancement Factory, Rupjanj
Mr. Mahbubul Alam, Chief Financial Officer, Cement Group, Scancement International Ltd, Chittagong Cement Clinker Grinding Co. Ltd.,
Mr Mohammad M. Rahman, Meghna Senior Executive Director Cement Mills Ltd (Basundhara Group)
Mr. Lasker, Company Secretary, Industrial Development Company Ltd (IDCOL),
Mr. Zahidul Islam Khan Mahmud, Manager Finance, Holcim (Bangladesh) Ltd

Organisations
Mr. Md. Azizur Rahman, Secretary Bangladesh Cement Manufacturers Association
Mr. Farhad Ahmed Chowdhury, Metropolitan Chamber of Commerce and Industry
Mr. Hafizuddin Ahmed, International Finance Corporation (IFC), Country Manager

Mr. G.M. Khurshid Alam, World Bank Dhaka Office, Sr. Private Sector Development Specialist,
Dr. Debapriya Bhattachharya, Executive Director, Centre for Policy Dialogue
Mr. Nazrul Islam, Executive Director and CEO, Infrastructure Investment Facilitation Center (IIFC),
Ms. Parveen Karma-Sahayak, Deputy Managing Director, Foundation (PKSF)

Norwegian Embassy
Ms. Gerd Wahlstrøm, Ambassador
Ms. Lena Hasle, First Secretary, Development Affairs
Mr. Arup K. Biswas, Adviser Development Affairs

Ministry of Finance
Ms. Nasrin Sultana Palli, Economic Relations Division, Deputy Chief

Denmark

IFU
Morten Christiansen, Department Director for Investment Management

Ministry of Foreign Affairs
Bent Dahl-Olsen, Minister Counsellor

Mozambique

Investment funds
Ainadin Cader, Minco, CEO
Dr Ricardo Mendes, BIM Leasing CEO
Nuno Maposse CPI, Head of Investment Promotion and Facilitation Division
Issufo Caba, Business Development Advisor IFC/ Apdf

Norwegian Embassy
Jan Arne Munkeby, Ambassador
Lars Ekmann, First Secretary

Enterprises
UGC, Mr Prosperino
PoDE, Mariamo Carimo, Director
Socremo, Geronimo C. Binda, Director General
Techno Serve, Carlos Costa, Director Adjunto
CTA, Dr Carvalho Neves, consultant
GCI/BCI , Antonio F. Munguambe, Executive Director
GCI/BCI, Ana P. F. Santos, Financial Analyst
MADAL and Minco Investment Board, Antonio Branco, CEO and Chairman
BIM Investment, Nuno Santos, Managing Director
ULC, Victor Viseu, Director General
Tchuma, Dna Catarina
GAPI, Antonio Souto
PCA, Adolfo A. Muholove, Director
Formacao, Anabela Mucavele, Director
CETA, Romeu Rodrguez, Director General
CETA, Luis L. Soeiro, Financial Director

Nicaragua

Investment funds and enterprises
Jorge Vidaurre, Director General CASEIF-LIMA
Mehraz Rafat, Asesor Ejecutivo CASEIF-LIM
Adolfo McGregor, Presidente FINARCA
Hugo Paguagua, Gerente General FINARCA
John Wyss, Presidente IBW
Marisol Delgadillo, Vicegerente General IBW
Reidar SundetJairo Hernandez, Presidente NICAFISHGerente NICAFISH
Enrique Zamora, Gerente General LAFISE
Marta Zamora, Gerente Finanzas Corporativas
Gabriel Solórzano, Presidente FINDESA
David Senna, Gerente General NICANOR
Julio Cárdenas, Director Ejecutivo BANCENTRO
Róger Arteaga, Director General de Ingresos
Marcos Narváez, Gerente General FNI, SA
Johanna Reyes, Asesora Gerencia
Margarita Rocha, Gestión de Recursos FNI,SA General FNI, SA
Harold Rocha, Director Ejecutivo INPYME
Eduardo Bolaños, Dir.Gral. Fomento Empresarial MIFIC
Juan Peters, Asesor Técnico MIFIC
Patricia Campbell, Directora Específica MINREX
Salvador Mayorga Sacasa,Gerente General PLYNIC
Fernando Lucano, Director Ejecutivo CYRANO

Ministries
Eduardo Montealegre, Ministro de Hacienda y Crédito Público.
Danilo Núñez, Jefe de Departamento Inversiones MIFIC
Noy Bernheim, Dir.Gral Promoción Inversiones MINREX

Norwegian embassy
Reidun Roald, Consejera
Felipe Rios, Asesor

Sweden

Ministry of Foreign Affairs
Rut Jakoby, Secretary General
Lennarth Hjemåker, Director General
Stefan Isaksson, deputy director

Swedfund
Olle Arefalk, Managing Director

United Kingdom

Aureos
Thorbjørn Gaarder, Manging Director
Michael Ellen, Director General
Noah Beckwith, Development Economist
Satyam Rammauth, fund manager, Mauritius

Raj Morjania, fund manager Tanzania
Erik Peterson, fund manager Central America

CDC
Andrew Reicher, Managing Director

DIFD
David Stanton, Chief Enterprise Development Manager
Gavin McGillivray, Special Advisor
Gary Jenkins, Special Advisor

Workshop Oslo Norway, 31 October 2002

Ole Hillestad, ABB
Margaretha Gøransson, Future and Hope
Ragnhild Hammer, Max Havelaar
Einar Risa, Management and Finance
Jørn Høystad, Norplan AS
Olav Hansen, Scansem
Jan Dybfest, MFA
Knut-Are Okstad, MFA
Eli Moen, NORAD
Hege Gulli, NORAD
Erik Strømsøe, NORAD
Else Berit Eikeland, NORAD
Per Emile Lundøe, Norfund
Kjartan Stigen, Norfund
Christopher Christensen-Røed, Norfund
Birgitte Bøgh-Olsen, Foreningen for Internasjonale Vann- og Skogstudier (FIVAS)
Øystein Gudim, LO
Jon Vea, NHO

Workshop Dhaka, Bangladesh 26 September 2002

Arup K. Biswas, Royal Norwegian Embassy (Adviser Development Affairs)
Lena Hasle, Royal Norwegian Embassy (1st Secretary Development Affairs)
Zahidul Islam Khan, Holcim Ltd (Manager Finance)
Parveen Mahmud, Palli Karma-Sahayak Foundation (Deputy Managing Director)
Nasrin Sultana, Ministry of Finance (Deputy Chief)

Workshop Maputo, Mozambique 3 October 2002

Pedro Chaves, AECA/Proforge
Jamu Hassan, AIOPA
Romeu Rodrigues, CETA
Mario Ussene CACM
Amade Camal, SIR Motors
Ambasse Baca, Hoteis de Inhambane
Issufo Caba, APDF- IFC
Nhundzawane, Bila APEB
Aurelio Dimande, CTA

Martins Langa, PEMAC
Samuel Chissico, Agrarius
Abdul Hamide, TechnoServe
Carlos Costa, TechnoServe
Mustak Ally, Raujee DELTA Trading
Felisberto Manuel, AMAPIC
Fernando Antonio Souto, GAPI
Julio N Maela, Frutisul
Martin Sphar, LFS- Financial Systems- SOCREMO
Jerónimo C Binda, Socremo
Simao Sevene, AJAM

Workshop Managua, Nicaragua, 17 October 2002

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Judith Acevedo, PROCOPE/MIFIC, Cluster Turismo
Johanna Reyes, FNI, S.A., Gestión de Fondos
Hugo Paguaga, FINARCA, Gerente General
Adolfo McGregor, FINARCA, Presidente
John A. Wyss, IBW, Presidente
Jean Yves Bugna, CANTUR, Presidente
Felipe Ríos, Asesor, Norwegian Embassy, Managua
Mario Faria, PROCOMPE/MIFIC, Ofic. Clusters
Erick Lagos, CASEIF/LIM, Oficial de Inversiones
Jorge Vidaurre, CASEIF/LIM, Director General
Reidar Sundet, NICAFISH, Presidente
Julio Cárdenas, Robleto BANCENTRO, Director Ejecutivo
Maritza Moncada, Congr.Muj.Empresarias, Coordinadora Managua
Gabriel Solórzano, FINDESA, Presidente
Ximena Ramírez, Congr. Mujeres Empres, Presidenta
Mehraz Rafat, CASEI/LIM, Asesor Ejecutivo

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1.03 Evaluation of the Norwegian Investment Fund for Developing Countries (Norfund)

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